

FORM 10-K

 X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED AUGUST 31, 2002

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) (Commission File No.) (IRS Employer Commission File No.)

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

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

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

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

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

Indicate by check mark 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 X NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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.

The aggregate market value of the Common Stock held by non-affiliates of the Registrant on November 22, 2002, based upon the closing sale price of the Common Stock of \$1.95 per share on that date, was approximately \$30,958,428. Shares of the Common Stock held by each officer and director and by each person who may be deemed to be an affiliate of the Registrant have been excluded.

As of November 22, 2002, the Registrant had 20,008,625 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the Registrant's Proxy Statement for the Registrant's Annual Meeting of Shareholders, which is scheduled to be held on January 24, 2003, are incorporated by reference in Part III of this Form 10-K.

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Part I

Item 1. Business

General

Franklin Covey Co. (the "Company", "we", "us", "our" or "FranklinCovey") is an international learning and performance solutions company dedicated to helping organizations and individuals to become measurably more effective. To achieve that goal, we provide training and education programs, educational materials, publications, assessment and measurement instruments, implementation processes and application tools. We have organized our business to serve two main customer segments: organizations and individual consumers. We offer solutions for organizations through a combination of assessment instruments, including the xQ (Execution Quotient™) Profile and the 7 Habits Profile, training courses including FOCUS: Achieving Your Highest Potential; Aligning Goals for Results; 7 Habits of Highly Effective People and other offerings, and implementation tools based on the FranklinCovey Planning System including the FranklinCovey Planner, PDA's (Personal Digital Assistants) devices like PALM®, PlanPlus for Microsoft Outlook®, wireless communication organizers, the Tablet PC and other tools. We measure the impact of training investments through pre- and post- assessment profiles and Return on Investment analysis.

As noted above, one of our mainstay tools that assist our clients in implementing effectiveness training is the FranklinCovey Planning System. The FranklinCovey Planning System typically implements our principle-based training and learning by using tools such as the FranklinCovey Planner. The original FranklinCovey Planner consists of a paper-based, two-page per day planning system combined with a seven-ring binder, a variety of planning aids, weekly, monthly and annual calendars and personal management sections. The FranklinCovey Planner can also be purchased in one-page per day or two-page per week versions. We also offer various forms and accessories that allow our clients to expand and customize their FranklinCovey Planner. A significant percentage of FranklinCovey Planner users continue to purchase a renewal planner each year, creating substantial recurring sales. We have also developed the FranklinCovey Planning System in electronic formats such as desktop software, as an add-on to PDA's, such as the popular PALM® Computing organizer, Compaq's® iPAQ™ Pocket PC®, Handspring's™ Trio® and wireless communication and planning devices. To enhance capabilities within organizations, we have produced an extension for the most widely installed corporate email and scheduling software, Microsoft Outlook®, called PlanPlus™, that incorporates FranklinCovey Planning productivity principles into the Outlook calendar system. FranklinCovey markets the FranklinCovey Planner and accessory products directly to organizations and individuals, through its catalog, its retail stores, its e-commerce Internet site at www.franklincovey.com and through third-party channels. The FranklinCovey Planning System is now also available for the recently introduced Tablet PC through FranklinCovey TabletPlanner software. The software was developed in partnership with Agilix Labs and includes the following features: screen views similar to the paper-based FranklinCovey Planner, natural handwriting interface, the full FranklinCovey Planning System with appointment scheduling, prioritized daily and master tasks and daily notes, digital note-taking and synchronization with Outlook Exchange and an eBinder concept allowing the collection of all important documents into one place.

The principles we teach in our curriculum have also been published in book and audiotape form. Books sold by the Company include *The 7 Habits of Highly Effective People®*, *Principle-Centered Leadership*, *First Things First*, *The 7 Habits of Highly Effective Families*, *Nature of Leadership* and *Living the 7 Habits*, all by Stephen R. Covey, *The 10 Natural Laws of Time and Life Management*, *What Matters Most* and *The Modern Gladiator* by Hyrum W. Smith, *The Power Principle* by Blaine Lee, *The 7 Habits of Highly Effective Teens* by Sean Covey and *Business Think* by Dave Marcum and Steve Smith. These books, as well as audiotape and CD audio versions of many of these products, are sold through general retail channels, as well as through our own catalog, our e-commerce web site at www.franklincovey.com and our more than 180 domestic and international retail stores.

As noted above, we provide effectiveness solutions to organizations in business, industry, government entities, communities, to schools and educational institutions, and to individuals. We sell services to organizations and schools through our own direct sales forces. We then deliver training services to organizations, schools and individuals in one of five ways:

1. FranklinCovey consultants provide on-site consulting or training classes for organizations and schools. In these situations, our consultant can tailor the curriculum to our client's specific business and objectives.
2. We also conduct public seminars in more than 200 cities throughout the United States, where organizations can send their employees in smaller numbers. These public seminars are also marketed directly to individuals through our catalog, e-commerce web-site, retail stores, and by direct mail.
3. Our programs are also designed to be facilitated by licensed professional trainers and managers in client organizations, reducing dependence on our professional presenters, and creating continuing revenue through royalties and as participant materials are purchased for trainees by these facilitators.
4. We also offer The 7 Habits of Highly Effective People® training course in online and CD-ROM formats. This self-paced e-learning alternative provides the flexibility that many organizations need to meet the needs of various worker groups, managers or supervisors who can't get away for extended classroom training and executives who need a series of working sessions over several weeks.
5. Through FranklinCovey Coaching LLC we offer follow-on coaching to help individuals implement the training principles they have learned in the training seminar or course they have taken. Personal coaches interact with individuals on regular basis to review principles and help set goals that eventually aligns behavior to the principles taught in the training.

In fiscal 2002, we provided products and services to 90 of the Fortune 100 and more than 75 percent of the Fortune 500 companies. We also provide products and services to a number of U.S. and foreign governmental agencies, including the U.S. Department of Defense, as well as numerous educational institutions. Approximately 350,000 individuals were trained during the year ended August 31, 2002.

We also provide products, consulting and training services internationally, either through directly operated offices, or through licensed providers. At August 31, 2002, we had direct operations in Canada, Japan, Australia, Mexico, Brazil and the United Kingdom. We also had licensed operations in 52 countries.

Recent Acquisitions and Divestitures

In September 2000, we entered into a joint venture agreement with American Marketing Systems to form Franklin Covey Coaching, LLC. The joint venture agreement required our coaching programs to achieve specified earnings thresholds beginning in fiscal 2002 or the joint venture agreement could be terminated at the option of AMS. However, due to unfavorable economic conditions and other factors, the Company's coaching programs did not achieve the fiscal 2002 earnings threshold requirement. As a result of unfavorable financial performance during fiscal 2002 and performance expectations in future periods, AMS exercised its option to terminate the existing joint venture agreement effective August 31, 2002. Under the provisions of a new partnership agreement, we may receive additional payments totaling up to \$3.2 million from AMS and FCC.

In December 2001, we sold the stock of Premier School Agendas, a Bellingham, Washington based wholly owned subsidiary and Premier School Agendas Ltd., based in Canada (collectively "Premier") to School Specialty (NASDAQ: SCHS) of Greenville, Wisconsin, for approximately \$152.5 million plus the retention of Premier's working capital, which was received in the form of a \$4.0 million promissory note from the purchaser. Prior to the sale closing, we also received cash distributions from Premier's working capital that totaled approximately \$7 million. We still maintain the rights to sell our Student Achievement Workshop into schools and school districts.

Unless the context requires otherwise, all references to the "Company", "we", "us", "our" or to "FranklinCovey" herein refer to Franklin Covey Co. and each of its operating divisions and subsidiaries. The Company's principal executive offices are located at 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331 and its telephone number is (801) 817-1776.

FranklinCovey Products

An important principle taught in our productivity training is to have only one personal productivity system and to have ones' information in that one system. Based upon that principle, we developed the FranklinCovey Planner as one of the basic tools for implementing the principles of our time management system. The original FranklinCovey Planner consists of a paper-based FranklinCovey planning system, a binder in which to carry it, various planning aids, weekly, monthly and annual calendars as well as personal management sections. We offer a broad line of renewal planners, forms and binders for the FranklinCovey Planner in various sizes and styles. For those clients who use digital or electronic productivity systems, we also offer a wide variety of electronic solutions incorporating the same principles as the original FranklinCovey Planner.

Paper Planners. Paper planner renewals are available for the FranklinCovey Planner in various sizes and styles and consist of daily or weekly formats, appointment schedules, task lists, monthly calendars, daily expense records, daily record of events, and personal management pages for an entire year. The paper planner renewal are offered in a number of new offerings to appeal to various customer segments. The Master Pack, which includes personal management tabs and pages, a guide to using the planner, a pagefinder and weekly compass cards completes a FranklinCovey Planner.

Electronic Solutions. We also offer time and life management methodology within a complete Personal Information Management ("PIM") system through the FranklinCovey Planner Software program. This system can be used in conjunction with the paper-based FranklinCovey Planner, electronic handheld organizers or used as a stand-alone planning and information management system. The FranklinCovey Planner Software permits users to generate and print data on FranklinCovey paper that can be inserted directly into the FranklinCovey Planner. The program operates in the Windows® 95, 98, 2000 and NT operating systems. The FranklinCovey Planner Software includes all necessary software, related tutorials and reference manuals.

We also offer PlanPlus™ for Microsoft® Outlook®, software designed to operate as an extension to Microsoft's Outlook® software. This is intended especially for our corporate clients that have already standardized on Microsoft® for group scheduling, but wish to make the FranklinCovey Planning System available to their employees without creating the need to support two separate systems. As this kind of extension proves its value in the market, the FranklinCovey Planner Software extension model will be expanded to other platforms.

We are an OEM provider of the PALM® Computing organizer that includes the FranklinCovey Planner Software when sold through our FranklinCovey channels. The PALM® has become another successful planning tool offered through all of our channels. In an effort to combine the functionality of paper and the capabilities of the PALM®, we introduced products that can add paper-based planning to these electronic planners as well as binders and carrying cases specific to the PALM®. We have also expanded the handheld line to include other electronic organizers with the FranklinCovey Planner software such as the iPAQ™ Pocket PC from Compaq® and the Trio™ by Handspring®.

We also provide *The 7 Habits of Highly Effective People*® training course in online and CD-ROM versions. This new edition delivers the rich, compelling content from the 3-day classroom workshop in a flexible self-paced version via the Internet or CD-ROM that is available when and where employees need it. The Online Edition is presented in a multi-media format with video segments, mouseovers, a learning journal, interactive exercises, and other techniques. Included with the course is a 360° profile and e-Coaching.

The FranklinCovey Planning System is now also available for the recently introduced Tablet PC through FranklinCovey TabletPlanner software. The software was developed in partnership with Agilix Labs and includes the following features: screen views similar to the paper-based FranklinCovey Planner, natural handwriting interface, the full FranklinCovey Planning System with appointment scheduling, prioritized daily and master tasks and daily notes, digital note-taking and synchronization with Outlook Exchange, and eBinder concept allowing the collection of all important documents into one place.

Binders. To further customize the FranklinCovey Planning System, we offer binders and electronic organizer accessories (briefcases, portfolios, wallets/purses, etc.) in a variety of materials, styles and FranklinCovey Planner sizes. These materials include high quality leathers, fabrics, synthetics and vinyls in a variety of color and design options. Binder styles include zipper closures, snap closures, and open formats with pocket configurations to accommodate credit cards, business cards, checkbooks, electronic devices and writing instruments.

Personal Development and Accessory Products. To supplement our principal products, we offer a number of accessories and related products, including books, videotapes and audio cassettes focused on time management, leadership, personal improvement and other topics. We also market a variety of content-based personal development products. These products include books, audio learning systems such as multi-tape, CD's and workbook sets, CD-ROM software products, calendars, posters and other specialty name brand items. We offer numerous accessory forms through our Forms Wizard software, which allows customization of forms, including check registers, spreadsheets, stationery, mileage logs, maps, menu planners, shopping lists and other information management and project planning forms. Our accessory products and forms are generally available in all the FranklinCovey Planner sizes.

Training and Productivity Solutions for Organizations

FranklinCovey is a leading provider of effectiveness training, productivity tools and assessment services for organizations including corporations, Government, education and non-profit firms. These services are marketed and delivered world-wide through our Organizational Strategic Business Unit (OSBU), which consists of talented consultants, selected through a competitive and demanding process, and sales professionals.

FranklinCovey currently employs 105 training consultants in major metropolitan areas of the United States, with an additional 16 training consultants outside of the United States. Our training consultants are selected from a large number of experienced applicants. These consultants generally have several years of training and/or consulting experience and are known for their excellent presentation skills. Once selected, the training consultant goes through a rigorous training program including multiple live presentations. The training program ultimately results in the Company's certification of the consultant. FranklinCovey believes that the caliber of its training consultants has helped build its reputation for providing high quality seminars. The OSBU can also help organizational clients diagnose inefficiencies in their organization and design the core components of a client's organizational solutions. The new xQ Survey is an exclusive FranklinCovey assessment tool that gathers, from an employee perspective, how well organizational goals are understood and are being carried out. The survey questions, administered through a Web-based system, probe for details to uncover underlying focus and teamwork barriers or issues.

FranklinCovey's OSBU is organized in geographic regional sales teams in order to assure that both the consultant and the client sales professional participate in the development of new business and the assessment of client needs. Consultants are then entrusted with the actual delivery of content, seminars, processes and other solutions. Consultants follow up with client service teams, working with them to develop lasting client impact and ongoing business opportunities.

Training and Education Programs. We offer a range of training programs designed to measurably improve the effectiveness of individuals and organizations. Our programs are oriented to address personal, interpersonal, managerial and organizational needs. In addition, we believe that our learning process provides an engaging and behavior-changing experience, which frequently generates additional business. During fiscal year 2002, more than 350,000 individuals were trained using the Company's curricula in its single and multiple-day workshops and seminars.

Our single-day *FOCUS: Achieving Your Highest Priorities* workshop teaches productivity skills integrated with a powerful planning system to help individuals clarify, focus on, and execute their highest priorities, both personally and professionally. This seminar is conducted by our training consultants for employees of clients and in public seminars throughout the United States and in many foreign countries. The single-day *Aligning Goals for Results* workshop helps managers identify the highest priorities for their teams and then lead those teams to execute tasks day-after-day.

We also deliver multiple-day workshops, primarily in the Leadership area. Included in these offerings is the three-day 7 Habits workshop based upon the material presented in *The 7 Habits of Highly Effective People*®. The 7 Habits workshop provides the foundation for continued client relationships and generates more business as the content and application tools are delivered deeper into the client's organization. Additionally, a three-day *4 Roles of Leadership* course is offered, which focuses on the managerial aspects of client needs. FranklinCovey Leadership Week consists of a five-day session focused on materials from FranklinCovey's *The 7 Habits of Highly Effective People*® and *The 4 Roles of Leadership* courses. FranklinCovey Leadership Week is reserved for supervisory level management of our corporate clients. As a part of the week's agenda, executive participants plan and design strategies to successfully implement key organizational goals or initiatives.

In addition to providing consultants and presenters, we also train and certify client facilitators to teach selected FranklinCovey workshops within their organizations. We believe client-facilitated training is important to our fundamental strategy of creating pervasive on-going client impact and revenue streams. After having been certified, clients can purchase manuals, profiles, planners and other products to conduct training workshops within their organization, generally without us repeating the sales process. This creates programs which have an on-going impact on our customers and which generate annuity-type revenues. This is aided by the fact that curriculum content in one course leads the client to additional participation in other Company courses. Since 1988, we have trained more than 19,000 client facilitators. Client facilitators are certified only after graduating from one of our certification workshops and completing post-course certification requirements.

We regularly sponsor public seminars in cities throughout the United States and in several foreign countries. The frequency of seminars in each city or country depends on the concentration of our clients, the level of promotion and resulting demand, and generally ranges from semi-monthly to quarterly. Our smaller institutional clients often utilize the public seminars to train their employees.

In April 2002, we introduced *The 7 Habits of Highly Effective People*® training course in online and CD-ROM versions. The needs for reaching more employees faster and more inexpensively are the key drivers behind the growth of e-learning in the marketplace. The new 7 Habits Online Edition addresses that need, offering a flexible alternative to classroom training.

Personal Coaching. We offer post-seminar training in the form of personal coaching through an entity called Franklin Covey Coaching, LLC. The entity employs 41 coaches that interact with clients on the telephone to help them implement the training principles learned from the seminar they have taken. The entity offers personal coaching for some of our curriculum as well as seminars offered by other training companies.

Sales and Marketing

The following table sets forth, for the periods indicated, the Company's revenue for each of its principal distribution channels:

	2002	2001	2000
Consumer Strategic Business Unit			
Retail Stores	\$122,496	\$156,299	\$163,304
Catalog/e-Commerce	63,291	90,450	110,543
Other	4,921	7,881	27,919
Total CSBU	190,708	254,630	301,766
Organizational Strategic Business Unit			
Organizational Solutions Group	97,519	134,450	169,986
International	44,771	50,701	50,878
Total OSBU	142,290	185,151	220,864
Total	\$332,998	\$439,781	\$522,630

We market products and services to organizations, schools and individuals both domestically and internationally through FranklinCovey retail stores, catalogs, www.franklincovey.com, our organizational and educational sales forces and other distribution channels.

Retail Stores. Beginning in late 1985, we began a retail strategy by opening retail stores in areas of high client density. The initial stores were generally located in lower traffic destination locations. We have since revised our strategy by locating retail stores in high-traffic retail centers, primarily large shopping centers and malls, to serve existing clients and to attract increased numbers of walk-in clients. Our retail stores average approximately 2,000 square feet. Our retail strategy focuses on providing high quality client service at the point of sale. We believe this approach increases client satisfaction as well as the frequency and volume of purchases. At August 31, 2002, FranklinCovey had 173 domestic retail stores located in 37 states and the District of Columbia and 10 international stores.

We believe that our retail stores serve as attractive distribution centers for existing clients and also encourage walk-in traffic and impulse buying and that store clients are a source of participants for FranklinCovey's public seminars. The stores also provide the opportunity to assess client reaction to new product offerings and to test-market new products.

We believe that our retail stores have an upscale image consistent with our marketing strategy. Products are attractively presented and displayed with an emphasis on integration of related products and accessories. Stores are staffed with a manager, an assistant manager and additional sales personnel as needed. These sales associates have been trained to use the original FranklinCovey Planner, as well as its various electronic versions, enabling them to assist and advise clients in selection and use of our products. During peak periods, additional personnel are added to promote prompt and courteous client service.

Catalog/e-Commerce. We periodically mail catalogs to our clients, including a fall catalog, holiday catalog, catalogs timed to coincide with planner renewals and catalogs related to special events, such as store openings or new product offerings. Catalogs may be targeted to specific geographic areas or user groups as appropriate. Catalogs are typically printed in full color with an attractive selling presentation highlighting product benefits and features. During fiscal 2001, we entered into a long-term contract with EDS of Dallas, Texas, to provide a large part of our customer relationship management (CRM) in servicing our Catalog and e-Commerce customers. We use EDS to maintain a client service department, which clients may call toll-free, 24 hours a day, Monday through Saturday, to inquire about a product or to place an order. Through a computerized order entry system, client representatives have access to client preferences, prior orders, billings, shipments and other information on a real-time basis. Each of the more than 227 customer service representatives has the authority to immediately solve client service problem. The integrated CRM system provided by EDS allows orders from our customers to be processed quickly through its warehousing and distribution systems. Client information stored within the order entry system is also used for additional purposes, including target marketing of specific products to existing clients and site selection for Company retail stores. We believe that the order entry system helps assure client satisfaction through both rapid delivery and accurate order shipment.

Other Channels. We have an alliance with the At-A-Glance group to sell our products through the contract stationer channel. At-A-Glance wholesales other products to contract stationer businesses such as Boise Cascade, Office Express and Staples, which then sell office products through catalog order entry systems to businesses and organizations.

Organizational Solutions Group. Our sales professionals market training, consulting and measurement services to institutional clients and public seminar clients. We employ 92 sales professionals and business developers located in six major metropolitan areas throughout the United States who sell integrated offerings to institutional clients. We also employ an additional 53 sales professionals and business developers outside of the United States in six countries. Our sales professionals have selling experience prior to employment by the Company and are trained and evaluated in their respective sales territories. Sales professionals typically call upon persons responsible for corporate employee training, such as corporate training directors or human resource officers. Increasingly, sales professionals also call upon line leaders. Our sales professionals work closely with training consultants in their territories to schedule and tailor seminars and workshops to meet specific objectives of institutional clients. We also employ 105 training consultants throughout the United States who present institutional and public seminars in their respective territories and an additional 16 training consultants outside of the United States. Training consultants work with sales professionals and institutional clients to incorporate a client's goals, policies and objectives in seminars and present ways that employee goals may be aligned with those of the institution. Public seminars are planned, implemented and coordinated with training consultants by a staff of marketing and administrative personnel at the Company's corporate offices. These seminars provide training for organizations and the general public and are also used as a marketing tool for attracting corporate and other institutional clients. Corporate training directors are often invited to attend public seminars to preview the seminar content prior to engaging FranklinCovey to train in-house employees. Smaller institutional clients often enroll their employees in public seminars when a private seminar is not cost effective. In the public seminars, attendees are also invited to provide names of potential persons and companies who may be interested in our seminars and products. These referrals are generally used as prospects for our sales professionals. We also provide *The 7 Habits of Highly Effective Teens* as a workshop or as a year-long curriculum to schools and school districts and other organizations working with youth. Based on upon the *7 Habits of Highly Effective Teens* book, it helps to teach students and teachers better studying skills, learning habits, and interpersonal development. In December 2001, we sold the stock of Premier Agendas to School Specialty for approximately \$152.5 million plus the retention of Premier's working capital, which was received in the form of a \$4.0 million promissory note from the purchaser. Pursuant to a license from FranklinCovey, Premier is expected to continue to expose over 20 million K-12 students to FranklinCovey's world-renowned *7 Habits* content. We retained the educator leadership and effectiveness training portion of Premier's business.

International Sales. We provide products, training and printing services internationally through Company-owned and licensed operations. We have Company-owned operations and offices in Australia, Brazil, Canada, Japan, Mexico and the United Kingdom. We also have licensed operations in Argentina, Bahamas, Belgium, Bermuda, Bulgaria, Chile, China, Colombia, Croatia, Czech Republic, Denmark, Ecuador, Egypt, Estonia, Finland, France, Germany, Greenland, Hong Kong, Hungary, India, Indonesia, Israel, Italy, Korea, Latvia, Lebanon, Lithuania, Luxembourg, Malaysia, Nigeria, Netherlands, Norway, Panama, Philippines, Poland, Portugal, Puerto Rico, Saudi Arabia, Singapore, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Taiwan, Thailand, Trinidad/Tobago, Turkey, UAE, Uruguay, and Venezuela. We operate retail operations in Canada, Hong Kong, Japan, Mexico, Singapore and Taiwan. Our seven most popular books, *The 7 Habits of Highly Effective People*, *Principle-Centered Leadership*, *The 10 Natural Laws of Time and Life Management*, *First Things First*, *The Power Principle*, *The 7 Habits of Highly Effective Families* and *The 7 Habits of Highly Effective Teens* are currently published in multiple languages.

The international operations generated \$47.8 million in revenue for the year ended August 31, 2002. After grossing up royalties from licensed operations to their actual sales level, total sales generated in the international operations were \$66.5 million.

Strategic Distribution Alliances

We have created strategic alliances with innovative and respected organizations in an effort to develop effective distribution of our products and services. The principal distribution alliances currently maintained by FranklinCovey are: **Simon & Schuster** and **Saint Martin's Press** in publishing books for the Company; **Lumicore** to promote and facilitate Dr. Covey's personal appearances and teleconferences; **Nightingale-Conant** to market and distribute audio and video tapes of the Company's book titles; **MeadWestvaco** to market and distribute selected FranklinCovey Planners and accessories through the At-A-Glance catalog office supply channels; **PALM@ Computing** to serve as the official training organization for its **PALM@ Computing** products and distribution agreements with Hewlett Packard and Acer in connection with the Tablet PC.

Clients

We have a relatively broad base of institutional and individual clients. We have more than 2,000 institutional clients consisting of corporations, governmental agencies, educational institutions and other organizations. We believe our products, workshops and seminars encourage strong client loyalty. Employees in each of our distribution channels focus on providing timely and courteous responses to client requests and inquiries. Institutional clients may choose to receive assistance in designing and developing customized forms, tabs, pagefinders and binders necessary to satisfy specific needs.

Competition

Training. Competition in the performance skills organizational training and education industry is highly fragmented with few large competitors. We estimate that the industry represents more than \$6 billion in annual revenues and that the largest traditional organizational training firms have sales in the \$100 to 150 million range. Based upon FranklinCovey's fiscal 2002 organizational sales of approximately \$142 million, we believe we are a leading competitor in the organizational training and education market. Other significant competitors in the training market are Development Dimensions International, Achieve Global (formerly Zenger Miller), Organizational Dynamics Inc., Provant, Forum Corporation, EPS Solutions and the Center for Creative Leadership.

Products. The paper-based time management and personal organization products market is intensely competitive and subject to rapid change. FranklinCovey competes directly with other companies that manufacture and market calendars, planners, personal organizers, appointment books, diaries and related products through retail, mail order and other direct sales channels. In this market, several competitors have strong name recognition. We believe our principal competitors include DayTimer, At-A-Glance and Day Runner. We also compete with companies that market substitutes for paper-based products, such as electronic organizers, software PIMs and hand-held computers. Our FranklinCovey Planner Software competes directly with numerous other PIMs. Many of FranklinCovey's competitors have significant marketing, product development, financial and other resources. An emerging potential source of competition is the appearance of calendars and event-planning services available at no charge on the Web. There is no indication that the current level of features has proven to be attractive to the traditional planner customer as a stand-alone service, but as these products evolve and improve, they could pose a competitive threat.

Given the relative ease of entry in FranklinCovey's product and training markets, the number of competitors could increase, many of whom may imitate our methods of distribution, products and seminars, or offer similar products and seminars at lower prices. Some of these companies may have greater financial and other resources than us. We believe that the FranklinCovey Planner and related products compete primarily on the basis of user appeal, client loyalty, design, product breadth, quality, price, functionality and client service. We also believe that the FranklinCovey Planner has obtained market acceptance primarily as a result of the concepts embodied in the FranklinCovey Planner, the high quality of materials, innovative design, our attention to client service, and the strong loyalty and referrals of our existing clients. We believe that our integration of training services with products has become a competitive advantage. Moreover, we believe that we are a market leader in the United States among a small number of integrated providers of productivity and time management products and services. Increased competition from existing and future competitors could, however, have a material adverse effect on our sales and profitability.

Manufacturing and Distribution

The manufacturing operations of FranklinCovey consist primarily of printing, collating, assembling and packaging components used in connection with our paper product lines. We operate our central manufacturing services out of Salt Lake City. We have also developed partner printers, both domestically and internationally, who can meet our quality standards, thereby facilitating efficient delivery of product in a global market. We believe this has positioned us for greater flexibility and growth capacity. Automated production, assembly and material handling equipment are used in the manufacturing process to ensure consistent quality of production materials and to control costs and maintain efficiencies. By operating in this fashion, we have gained greater control of production costs, schedules and quality control of printed materials.

During fiscal 2001, we entered into a long-term contract with EDS to provide warehousing and distribution services of our product line. EDS maintains a facility at the Company's headquarters as well as at other locations throughout North America.

Binders used for our products are produced from either leather, simulated leather, tapestry or vinyl materials. These binders are produced by multiple and alternative product suppliers. We currently enjoy good relations with our suppliers and vendors and with the exception of strikes affecting dock workers do not anticipate any difficulty in obtaining the required binders and materials needed for our business. We have implemented special procedures to ensure a high standard of quality for binders, most of which are manufactured by suppliers in the United States, Europe, Canada, Korea, Mexico and China.

We also purchase numerous accessories, including pens, books, videotapes, calculators and other products, from various suppliers for resale to our clients. These items are manufactured by a variety of outside contractors located in the United States and abroad. We do not believe that we are entirely dependent on any one or more of such contractors and consider our relationships with such suppliers to be good.

Trademarks, Copyrights and Intellectual Property

We seek to protect our intellectual property through a combination of trademarks, copyrights and confidentiality agreements. We claim rights for more than 120 trademarks in the United States and have obtained registration in the United States and many foreign countries for many of our trademarks, including *FranklinCovey*, *The 7 Habits of Highly Effective People*[®], *Principle-Centered Leadership*, *Aligning Goals for Results*, *FOCUS: Achieving Your Highest Priorities*, *FranklinCovey Planner*, *PlanPlus*, and *The Seven Habits*. We consider our trademarks and other proprietary rights to be important and material to our business. Each of the marks set forth in italics above is a registered mark or a mark for which protection is claimed.

We own all copyrights on our planners, books, manuals, text and other printed information provided in our training seminars, the programs contained within FranklinCovey Planner Software and its instructional materials, and our software and electronic products, including audio tapes and video tapes. We license rather than sell all facilitator workbooks and other seminar and training materials in order to limit its distribution and use. FranklinCovey places trademark and copyright notices on its instructional, marketing and advertising materials. In order to maintain the proprietary nature of our product information, FranklinCovey enters 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

As of August 31, 2002, FranklinCovey had 2,081 full and part-time associates, including 472 in sales, marketing and training; 971 in customer service and retail; 158 in production operations and distribution; and 480 in administration and support staff. During fiscal 2002, the Company outsourced a significant part of its information technology services, customer service, distribution and warehousing operations to EDS. A number of the Company's former employees involved in these operations are now employed by EDS to provide those services to FranklinCovey. None of FranklinCovey's associates are represented by a union or other collective bargaining group. Management believes that its relations with its associates are good. FranklinCovey does not currently foresee a shortage in qualified personnel needed to operate the Company's business.

Item 2. Properties

Franklin Covey's principal business operations and executive offices are located in Salt Lake City, Utah. The following is a summary of our owned or leased properties. Our facility lease agreements are accounted for as operating leases, which expire at various dates through the year 2016.

U.S. Administrative Offices:

- Salt Lake City, UT (8 locations) - 3 leased
- Provo, Utah (2 locations) - both leased

International Administrative Offices:

- Canada (1 location)
- Latin America (3 locations) - all leased
- Asia Pacific (2 locations) - both leased
- Europe (1 location) - leased

Sales Offices:

- United States (9 locations) - all leased

Distribution Facilities:

- Asia Pacific (2 locations) - both leased
- Canada (1 location)
- Latin America (1 location) - leased

Manufacturing Facilities:

- United States (2 locations)

Retail Stores:

- United States (173 locations) - all leased
- Canada (6 locations) - all leased
- Latin America (4 locations) - all leased

The Company considers its existing facilities sufficient for its current and anticipated levels of operations in the upcoming fiscal year.

Item 3. Legal Proceedings

As part of the sale of Premier Agendas, we retained certain outstanding legal claims against Premier. Subsequent to August 31, 2002, we settled these outstanding claims for approximately \$0.8 million, which increased the recorded gain from the sale of Premier as we had accrued \$3.5 million for the potential liability related to these claims.

During fiscal 2002, the Company received a subpoena from the Securities and Exchange Commission ("SEC") seeking documents and information relating to our management stock loan program and previously announced, and later withdrawn, tender offer. We have provided the documents and information requested by the SEC, including the testimony of our Chief Executive Officer and other key employees. The Company has cooperated, and will continue to cooperate, fully in providing requested information to the SEC. The SEC has stated that the formal inquiry is not an indication that the SEC has concluded that there has been a violation of any law or regulation. The Company believes that we have complied with the laws and regulations applicable to our management loan program and withdrawn tender offer.

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

No matters were submitted to a vote of security holders during the fourth quarter of our fiscal year ended August 31, 2002.

Part II

Item 5. Market for the Registrant's Common Stock and Related Shareholder Matters

The Company's common stock is listed and traded on the New York Stock Exchange ("NYSE") under the symbol "FC." The following table sets forth, for the periods indicated, the high and low sale prices for the Company's common stock, as reported on the NYSE Composite Tape, for the fiscal years ended August 31, 2002 and 2001.

High

Low

Fiscal Year ended August 31, 2002:

Fourth Quarter	\$ 3.10	\$ 1.95
Third Quarter	3.70	2.18
Second Quarter	6.30	3.10
First Quarter	7.00	2.04

Fiscal Year ended August 31, 2001:

Fourth Quarter	\$ 7.40	\$ 4.36
Third Quarter	8.75	6.16
Second Quarter	9.00	6.81
First Quarter	9.75	6.44

The Company did not pay or declare dividends on its common stock during the fiscal years ended August 31, 2002 and 2001. The Company currently anticipates that we will retain all available funds to finance our future growth and business expansion. The Company does not intend to pay cash dividends on our common stock in the foreseeable future.

As of November 22, 2002 the Company had 20,008,625 shares of its common stock outstanding, held by approximately 350 shareholders of record.

Item 6. Selected Financial Data

Financial Highlights

<i>August 31,</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
<i>In thousands, except per share data</i>					
Income Statement Data					
Sales	\$332,998	\$439,781	\$522,630	\$509,351	\$495,230
Net Income (Loss) from Continuing Operations	(96,466)	(13,196)	(7,472)	(14,689)	39,622
Income (Loss) Attributable to Common Shareholders	(109,266)	(19,236)	(12,414)	(10,647)	40,058
Diluted Earnings (Loss) Per Share	(5.49)	(0.95)	(0.61)	(0.51)	1.62
Balance Sheet Data					
Total Assets	\$304,738	\$536,480	\$592,479	\$623,303	\$597,277
Long-Term Obligations of Continuing Operations	3,303	92,858	65,139	5,602	126,075
Shareholders' Equity	234,555	309,882	374,053	378,434	341,654

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

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

Franklin Covey Co. is a worldwide leader in providing integrated learning and performance solutions to organizations and individuals designed to enhance productivity, leadership, sales performance, communication, and other areas. Each solution set may include products and services that encompass training and consulting, assessment, and various application tools that are generally available in electronic or paper-based formats. Our products and services are available through professional consulting services, public workshops, retail stores, catalogs, and the Internet at www.franklincovey.com. The Company's best-known offerings include the Franklin Planner™, our productivity workshop entitled "What Matters Most", and courses based upon the best-selling book, *The 7 Habits of Highly Effective People*.

Our fiscal year ends on August 31, and unless otherwise indicated, fiscal 2003, fiscal 2002, fiscal 2001, and fiscal 2000, refer to the twelve-month periods ended or ending on August 31, 2003, 2002, 2001, and 2000, respectively.

Key factors that influence our operating results include the number of organizations that are active customers; the number of people trained within those organizations; the sale of personal productivity tools (including Franklin Planners, Personal Digital Assistants or "PDAs", binders, and other related products); and our ability to manage operating costs necessary to provide products and services to our clients.

The following is a summary of recent business acquisitions and divestitures:

Subsequent to August 31, 2002, we purchased 20 percent of the common stock of Agilix Labs, Inc., a Delaware corporation, for payments totaling \$1.0 million in cash. Agilix develops software applications for personal computers, including the new "Tablet PC." The Company may, upon the achievement of specific objectives by Agilix, purchase another 10 percent of the common stock of Agilix Labs, Inc. for \$0.5 million.

During fiscal 2001, we entered into a joint venture with American Marketing Systems ("AMS") to form Franklin Covey Coaching, LLC ("FCC"). The operating results of this joint venture were reported as equity in the earnings of an unconsolidated subsidiary in fiscal 2002 and fiscal 2001. Under terms of the joint venture agreement, the Company's coaching programs were required to achieve specified earnings thresholds beginning in fiscal 2002, or the joint venture could be terminated at the option of AMS. Due to unfavorable sales performance by our coaching programs during fiscal 2002, AMS terminated the existing joint venture agreement as of August 31, 2002. Under terms of a new partnership agreement that eventually terminates our interest in FCC, we received a \$0.3 million payment and may receive an additional \$3.2 million in payments from AMS and FCC. For further information on Franklin Covey Coaching, LLC, refer to Note 5 in our consolidated financial statements.

Effective December 21, 2001, we sold Premier Agendas, Inc. and Premier Agendas, Ltd. (collectively, "Premier"), both wholly owned subsidiaries to School Specialty, Inc., a company that specializes in providing products and services to students and schools. Premier provided productivity solutions to the educational industry, including student and teacher planners. The sale price was \$152.5 million in cash plus the retention of Premier's working capital, which was received in the form of a \$4.0 million promissory note that was paid in full during fiscal 2002. Prior to the sale closing, we received cash distributions from Premier's working capital that totaled approximately \$7 million. Refer to Note 7 in our consolidated financial statements for further information regarding the sale of Premier.

During April 2001, we purchased the Project Consulting Group for \$1.5 million in cash. The Project Consulting Group provides project consulting, project management, and project management training services.

As of February 28, 2000, we sold the assets and substantially all of the business of our commercial printing division of Publishers Press. We retained the printing operations necessary for the production of our planners and other related products. For further information regarding the sale of the commercial division of Publishers Press, refer to Note 22 in our consolidated financial statements.

In December 1999, the Company purchased a majority interest in DayTracker.com (renamed franklinplanner.com), an on-line provider of scheduling and calendaring services. During the fourth quarter of fiscal 2002, we discontinued the on-line planning services offered at franklinplanner.com and the results of operations for franklinplanner.com were included as discontinued operations in our consolidated financial statements. For further information regarding the termination of franklinplanner.com operations, refer to Note 7 in our consolidated financial statements.

During September 1999, the Company acquired the assets of the Professional Resources Organization (the Jack Phillips Group) for \$1.5 million in cash. The Professional Resources Organization was a leading measurement assessment firm specializing in measuring the impact and return on investment of training and consulting programs.

RESULTS OF OPERATIONS

Segment Review

Following the sale of Premier during fiscal 2002, we now have two reporting segments: the Consumer Strategic Business Unit ("CSBU") and the Organizational Strategic Business Unit ("OSBU"). The operating results of Premier and our other products and services designed for teachers and students were previously reported in the Education Business Unit, which was dissolved during fiscal 2002. Our remaining student and teacher programs and products are now classified with the Organizational Strategic Business Unit results of operations.

Consumer Strategic Business Unit – This business unit is focused on sales to individual customers and includes the operating results of our 173 domestic retail stores, 10 international stores, catalog and e-Commerce operations, and other related channels including wholesale sales and manufacturing operations. Although CSBU sales primarily consist of products such as planners, binders, and handheld electronic planning devices, virtually any component of our leadership and productivity solutions can be purchased through CSBU channels.

Organizational Strategic Business Unit – The OSBU is primarily responsible for the development, marketing, sale, and delivery of productivity, leadership, sales performance, and communication training solutions directly to organizational clients, including other companies, the government and educational institutions. The OSBU includes the financial results of the Organizational Solutions Group ("OSG") and our international operations, except for retail stores. The organizational solutions group is responsible for the domestic sale and delivery of productivity, leadership, sales performance, and communication training solutions to corporations and includes sales of training seminars to teachers and students, which were previously reported with the operating results of Premier. The OSG is also responsible for the sale of productivity solutions to wholesale customers and for consulting services that compliment our productivity and leadership training solutions. The international sales group includes our direct offices and licensee sale and delivery operations, including catalog sales.

The following table sets forth selected segment sales and consolidated operational data from continuing operations for the periods indicated. For further reporting segment information, refer to Note 21 in our consolidated financial statements.

	2002	2001	2000
<i>Consumer Strategic Business Unit:</i>			
Retail stores	\$ 122,496	\$ 156,299	\$ 163,304
Catalog and eCommerce	63,291	90,450	110,543
Other CSBU	4,921	7,881	27,919
	190,708	254,630	301,766
<i>Organizational Strategic Business Unit:</i>			
OSG	97,519	134,450	169,986
International	44,771	50,701	50,878
	142,290	185,151	220,864
Total sales	332,998	439,781	522,630
Cost of sales	149,369	189,982	242,764
Gross margin	183,629	249,799	279,866
Selling, general, and administrative	216,910	224,458	230,353
Stock option purchase and relocation costs			11,227
Provision for losses on management stock loan program	24,775	1,052	
Impairment of investment in unconsolidated subsidiary	16,323		
Loss on impaired assets	10,185	801	1,940
Restructuring cost reversals			(4,946)
Depreciation	33,342	27,441	25,517
Amortization	4,667	10,840	13,069
Income (loss) from operations	\$(122,573)	\$ (14,793)	\$ 2,706

FISCAL 2002 COMPARED WITH FISCAL 2001

Sales

Our overall operating performance was adversely affected by significant sales declines during fiscal 2002. The Company believes that difficult economic conditions in the United States, which were worsened by the terrorist attacks that occurred on September 11, 2001, led to significantly reduced travel schedules for training in addition to tightened budgets for productivity tool and supply expenditures, as our corporate clients sought to decrease operating expenses. In addition, sales of handheld electronic planning devices, which were especially popular during fiscal 2001 and fiscal 2000, declined sharply in fiscal 2002 due to significant reduction in demand for these devices. As a result of these and other factors, we experienced significant sales declines compared to the prior year for both training and productivity tools in our various channels. In an effort to improve both product and training solution sales in future periods, the Company has developed and is developing new training solutions specifically focused around our productivity seminars, and has developed and is developing new personal and organizational software products for our various channels. Additionally, the Company recently introduced "Tablet PCs" and related planning software, which can be purchased through many of our channels. Although the initial response to these products and seminars has been favorable, there can be no assurance that these new products will be widely accepted by our clients.

Product sales, which consist primarily of planners, binders, and handheld electronic planning devices declined by \$76.7 million, or 26 percent, from the prior year. The overall decrease in product sales was significant to our retail store, catalog/e-Commerce, and other consumer business unit channels. Retail store sales were adversely affected by declining average sales dollars per transaction combined with a decrease in consumer traffic and overall smaller number of transactions. Of the \$33.8 million decline in retail store sales, approximately \$25.0 million related to declines in the sales of handheld electronic planning devices and related accessories. Of this decline, approximately \$18.0 million occurred during our first two quarters of fiscal 2002. Planner and binder sales through our retail stores also decreased by a total of 12 percent compared to the prior year. These product sales declines included a 14 percent decline during the first two fiscal quarters compared to a eight percent decline during the last two quarters of fiscal 2002. As a result of these sales trends, comparable store (stores that have been open for over a year) retail sales decreased by 28 percent compared to fiscal 2001. Comparable store sales experienced a 31 percent decrease during the first two quarters versus a 24 percent decrease during our last two quarters of fiscal 2002. The sales performance from new stores partially offset the decline in comparable store sales, resulting in a 22 percent overall decrease in retail store sales during fiscal 2002. As of August 31, 2002, we were operating 173 domestic retail stores compared to 164 stores at August 31, 2001. Catalog/e-Commerce sales declined primarily due to reduced call volume in the Company's catalog call center operations, particularly during the first two quarters of fiscal 2002, and to average order size, due primarily to declines in handheld electronic planning device sales.

Training solution and training product related sales decreased by \$30.1 million, or 21 percent, compared to the prior year, which was reflected in both domestic and foreign training sales during fiscal 2002. The Company offers a variety of training solutions, training related product, and consulting services focused on productivity, leadership, sales performance, and communications. With the impact of a weak domestic economy, which generally influences corporate, governmental, and educational spending, training sales during fiscal 2002 decreased due to reduced spending for both company facilitator led and on-site training programs. Public program sales and training solution sales to teachers and students in the education industry also decreased compared to fiscal 2001 sales levels. These decreases were partially offset by sales performance seminars, which increased compared to the prior year.

International product and training sales decreased slightly compared to the prior year primarily due to decreased sales in Mexico, Canada, continental Europe, and Australia. These declines were partially offset by increased sales from Brazil and the United Kingdom. Sales in Japan and royalty revenues from licensee operations were essentially flat compared to the prior year. During fiscal 2002, the continental European direct office was converted to a licensee operation, which resulted in reduced sales, but increased margins. The Company also attributes a portion of the decrease in international sales to similar economic factors that had an adverse affect on domestic product and training sales during fiscal 2002.

Gross Margin

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

The Company's overall gross margin during fiscal 2002 decreased to 55.1 percent of sales, compared to 56.8 percent in the prior year. The decline in overall gross margin was primarily due to factors that adversely affected our gross margin during the first and second quarters of fiscal 2002. During our seasonally strong sales months in early fiscal 2002, manufacturers of handheld electronic planning devices discounted many devices and accessories to promote sales. These discounts affected the sale price of many of our handheld electronic devices, resulting in narrower margins. We also experienced a shortage of certain popular planner products due to the bankruptcy of one of our key printing suppliers. This resulted in lost sales and backorders of high margin products. When these backordered products were eventually shipped to customers, we used more expensive overnight delivery methods, which costs could not be passed on to our customers. The Company has also experienced a shift in our product mix toward lower-margin binders and planners during fiscal 2002. As a result of these and other related factors, our gross margin on product sales declined to 50.0 percent compared to 51.6 percent during fiscal 2001.

Training solution costs, as a percentage of sales, increased due to a shift in the product mix of training solutions sold in addition to lower attendance at corporate on-site and public seminar events held during the year. The cancellation and postponement of numerous seminars due to travel restrictions and declining travel subsequent to the terrorist attacks of September 11, 2001, significantly affected the gross margin of seminar sales during the first and second quarters of fiscal 2002. Certain components of public seminar events are fixed, such as direct marketing expenses, site fees, equipment rentals, and presenter costs. With a decline in the average number of participants per public training seminar, the fixed costs for the training seminar resulted in lower gross margins for the events. In addition, some costs incurred for canceled seminars were not refundable. We also developed a custom line of training products for a specific customer that had significantly lower margins than the majority of our other training kits, products, and accessories, thus negatively impacting our training gross margin. These factors combined to reduce the training and service gross margin to 65.4 percent, compared to 67.8 percent in fiscal 2001. As part of our efforts to improve operating results, we are actively seeking to reduce product and seminar costs in order to improve overall gross margins.

Operating Expenses

Selling, general, and administrative ("SG&A") expenses of continuing operations decreased \$7.5 million, but due to decreased sales, increased as a percent of sales to 65.1 percent, compared to 51.0 percent of sales in the prior year. The decrease in SG&A expenses was primarily due to specific initiatives implemented to reduce operating expenses and exit non-core activities in order to focus and align corporate strategy and improve overall profitability. These cost reduction initiatives resulted in significantly decreased associate, advertising, travel, and computer and office supply expenses, especially during our third and fourth fiscal quarters, compared to the prior year. Partially offsetting these cost reduction initiatives were severance costs, additional retail store operation costs relating to new stores opened during the year, and outsourcing implementation costs. In connection with our decision to exit non-core and unprofitable activities, we have reduced our employee base during fiscal 2002. As a result of these headcount reduction efforts, the Company incurred and expensed \$5.2 million of severance and related costs during fiscal 2002. During fiscal 2001, we entered into long-term outsourcing agreements with Electronic Data Systems ("EDS") to provide warehousing, distribution, information systems, and call center

operations. In addition to base charges for services provided, we have incurred and expense transition costs necessary to operate under terms of the agreements. These charges are not expected to recur and we expect to realize overall savings in these outsourced activities. During fiscal 2002, the Company has implemented and continues to pursue various cost reduction initiatives and believes that our efforts will continue to reduce recurring SG&A costs in fiscal 2003 and in future periods.

Depreciation expense in continuing operations increased by \$5.9 million compared to the prior year, primarily due to the acquisition of computer software and hardware, and the addition of leasehold improvements in new and remodeled retail stores. As the Company continues to reduce capital expenditures, and recently purchased computer hardware and software becomes fully depreciated in the next few years, we expect depreciation charges to decline in future periods. Amortization expense attributable to continuing operations decreased by \$6.2 million, primarily due to the adoption of SFAS No. 142, which prohibits goodwill amortization and requires a fair value approach, with periodic assessments for impairment, to value goodwill and indefinite-lived intangible assets. As a result of adopting the provisions of SFAS No. 142, we wrote off all recorded goodwill associated with our consumer business unit, organizations business unit, and corporate services group, plus a portion of the Covey trade name intangible asset, which has an indefinite life, from our balance sheet as of September 1, 2001. Refer to Note 4 of our consolidated financial statements for further information regarding the impact of adopting SFAS No. 142.

Provision for Losses on Management Stock Loans

The Company is now the creditor for a loan program that provided certain management personnel with the opportunity to purchase shares of our common stock. As a result of changes to our line of credit agreement obtained in fiscal 2001, the Company is the creditor on these loans, which are full recourse to the participants and are recorded as a reduction to shareholders' equity in our consolidated balance sheets. In connection with these loans, we utilize a systematic methodology to determine the level of reserves that are appropriate for potential losses resulting from the management common stock loan program. A key factor considered by our methodology is the current market value of the common stock held by the participants, although the Company is precluded by certain rules and regulations from holding the participants' stock as collateral for the loans. Other factors considered by our methodology include: the liquid net worth and earnings capacity of the participants; the inherent difficulties and risks of pursuing collection actions against key employees; the probability of sufficient participant repayment capability based upon the proximity to the due date of the loans; and other business, economic, and participant factors which may have an impact on the Company's ability to collect the loans. Based upon our methodology, we recorded charges to operations totaling \$24.8 million during fiscal 2002 to increase the loan loss reserve. At August 31, 2002 and 2001, we had aggregate loan loss reserves totaling \$25.9 million and \$1.1 million, respectively, which reduce notes and interest receivable from related parties in our consolidated balance sheets. Additionally, we discontinued recording interest receivable and corresponding interest income on the loans during the quarter ended May 25, 2002. However, the loan participants remain liable for interest accrued over the full term of their loans, which is due when the loans mature in March 2005. The inability of some or all participants to repay their loans would have a significant adverse effect upon the financial position and future cash flows of the Company.

At August 31, 2002, the participants' loans plus accrued interest exceeded the value of the common stock held by the participants by approximately \$29.2 million. Should the value of the common stock continue to be insufficient to cover the balance of the loans outstanding during the loan term, the Company's loan loss reserve methodology provides a basis to be fully reserved prior to the March 2005 loan maturity date.

The establishment of reserves for potential loan losses requires significant estimates and judgment by the Company's management and these estimates and projections are subject to change as a result of various economic factors, most of which are not within the control of the Company. Based on the methodology in place as well as other factors, charges or benefits may be reflected in our operating results in order to increase or decrease the reserve for management stock loan losses in future periods.

Impairment of Investment in an Unconsolidated Subsidiary

Effective September 1, 2000, we entered into a joint venture agreement with American Marketing Systems to form Franklin Covey Coaching, LLC ("FCC"). Each partner owned 50 percent of the joint venture and participated equally in its management. We accounted for our investment in FCC using the equity method of accounting and reported our share of the joint venture's net income as equity in earnings of an unconsolidated subsidiary. Our share of the joint venture's earnings totaled \$4.3 million during fiscal 2002, compared to \$2.1 million during fiscal 2001. The improvement was primarily due to increased sales of AMS coaching programs and reduced amortization expense at FCC.

The joint venture agreement required the Company's coaching programs to achieve specified earnings thresholds beginning in fiscal 2002 (the joint venture agreement did not contain an earnings threshold requirement in fiscal 2001) or the existing joint venture agreement could be terminated at the option of AMS. As a result of unfavorable coaching program performance for our programs during fiscal 2002, AMS exercised its option to terminate the existing joint venture agreement as of August 31, 2002. Based upon our coaching program performance throughout fiscal 2002, and expected termination of our interest in FCC, we recognized \$16.3 million of impairment charges to our investment in FCC during the first two quarters of fiscal 2002. The impairment charges were based upon currently available information related to negotiations with AMS throughout fiscal 2002. Under the provisions of a new partnership agreement that eventually terminates our interest in FCC, we received a \$0.3 million payment at the end of fiscal 2002, may receive payments totaling \$2.0 million during fiscal 2003, and may receive an additional \$1.2 million in payments from AMS and FCC. The new partnership agreement payments are comprised of the following three components:

Ownership Change Payment – On August 30, 2002, AMS paid the Company \$0.3 million for our Class A ownership shares in FCC and issued new Class B shares to the Company. The Class B ownership shares prohibit the Company from active participation in the management of FCC, but provide us the opportunity to receive and record a portion of FCC's earnings during fiscal 2003 as described below.

FCC Net Income Recognition – During fiscal 2003, we will continue to recognize a portion of FCC's net income through cash distributions made to the Company up to a maximum of \$2.0 million. As we receive these payments during fiscal 2003, we will first reduce our remaining investment in FCC to zero and recognize the excess amount as a credit to operating expenses, rather than as equity in the earnings of an unconsolidated subsidiary. Based upon current operating trends at FCC, we anticipate receiving the entire \$2.0 million of cash distribution payments during fiscal 2003.

Contingent Program Payment – The third component of the new partnership agreement is contingent upon the earnings of our coaching programs during fiscal 2003 and September 2003. If our coaching programs achieve earnings before interest, taxes, depreciation, and amortization ("EBITDA") greater than \$1.2 million during the 13-month period ended September 30, 2003, then a final payment will be made in October 2003 for the entire contingent program payment. The contingent payment may not exceed \$1.2 million, however, the contingent payment may be reduced on a dollar-for-dollar basis if our coaching programs fail to produce \$1.2 million of EBITDA during the measurement period. We will record the contingent program payment receivable as a component of other current assets to the extent it is earned during the measurement period by our coaching program financial results.

Following receipt of the new partnership agreement payments, we will have no further profit participation in the earnings of FCC. Our remaining investment in Franklin Covey Coaching, LLC totaled \$0.6 million at August 31, 2002.

Loss on Impaired Assets

We regularly review our long-lived assets for circumstances or events that indicate an asset may not be recoverable. Our losses on impaired assets consisted of the following for the periods indicated (in thousands):

Fiscal Year Ended August 31,

	2002	2001	2000
Covey trade name	\$ 4,000		
Not receivable from sale of subsidiary	2,282		
Capitalized software development costs	1,758	\$ 801	\$ 1,940
Computer software	1,097		
Retail store assets	1,001		
Other	47		
	<u>\$10,185</u>	<u>\$ 801</u>	<u>\$ 1,940</u>

During the fourth quarter of fiscal 2002, we reassessed the carrying value of the Covey trade name, an indefinite-lived intangible asset, under the provisions of SFAS No. 142. Due to declining sales and estimated future sales associated with the Covey trade name, we recorded a \$4.0 million impairment charge to this asset. The value of the Covey trade name will continue to be evaluated in future periods and may require further impairment charges.

The note receivable from the sale of a subsidiary became impaired when the purchaser declared bankruptcy during the second quarter of fiscal 2002. The note receivable was guaranteed by the parent company of the purchaser, however, the parent company also became insolvent during fiscal 2002 and the possibility of recovery on the note receivable appears remote.

Based upon unfavorable sales trends and projected sales information, we recorded total impairment charges of \$1.8 million for capitalized development costs related to software products that produced less-than-expected sales volume. During fiscal 2001 and 2000, we recorded \$0.8 million and \$1.9 million, respectively, of impairment charges for capitalized software development costs that were affected by similarly unfavorable sales trends and estimated sales projections. We also recorded a \$1.1 million impairment charge related to a customer database management software application, which was developed and installed by an external company, and became obsolete when we selected a new database software provider.

As a result of projected negative cash flows at certain of our retail stores, we recorded impairment charges totaling \$1.0 million to reduce the carrying value of the long-lived assets, which primarily consisted of furniture, fixtures, and leasehold improvements, of these stores to their estimated net realizable value at August 31, 2002.

Interest Income and Expense

Interest income and expense was primarily influenced by cash received from the sale of Premier, which occurred on December 21, 2001, and the reduction of recorded interest income from management stock loan program participants. The Company used a portion of the proceeds from the sale of Premier to repay and terminate our existing term note and line of credit agreement. In addition, during the third quarter of fiscal 2002, we stopped recording interest income from participants of the management loan program. The management stock loan program participants are still liable for the interest expense on their loans, which are due in March 2005. Primarily as a result of these items, the Company's interest income was essentially flat compared to the prior year and interest expense decreased by \$4.9 million compared to fiscal 2001.

Income Taxes

The Company's effective income tax benefit rate applicable to our loss on continuing operations was significantly reduced by the valuation allowances that were recorded against our deferred income tax assets during fiscal 2002, due to uncertainties surrounding the recovery of income tax assets against taxable income in future periods. The Company does not anticipate recognizing income tax benefits on its books from future losses, due to uncertainties associated with the utilization of the operating loss carry-forwards in future periods.

Loss on Discontinued Operations

During fiscal 2002, we sold the operations of Premier Agendas and discontinued our on-line planning service offered at franklinplanner.com. Under the applicable accounting rules, these operations were classified as discontinued operations in our consolidated financial statements. The operating results of Premier and franklinplanner.com were recorded as discontinued operations, net of tax, and consisted of the following for fiscal years 2000 through 2002 (in thousands):

Fiscal Year Ended
August 31,

	2002	2001	2000
Income (loss) from Premier operations, net of tax	\$ (5,844)	\$ 5,190	\$ 4,486
Loss from franklinplanner.com operations, net of tax	(1,740)	(3,077)	(1,423)
Income (loss) from discontinued operations	\$ (7,584)	\$ 2,113	\$ 3,063

The fiscal 2002 loss from the operations of Premier covers only the period from September 1, 2001 through December 21, 2001, the closing date of the sale, a period during which Premier does not recognize significant sales. The operations of franklinplanner.com were discontinued during the fourth quarter of fiscal 2002.

Gain on Sale of Discontinued Operations

Effective December 21, 2001, we sold the operations of Premier, a wholly owned subsidiary. Premier provided productivity and leadership solutions to the educational industry, including student and teacher planners. The sale price was \$152.5 million in cash plus the retention of Premier's working capital, which was received in the form of a \$4.0 million promissory note from the purchaser. Prior to the sale closing we received cash distributions from Premier's working capital that totaled approximately \$7 million. The promissory note was paid in June 2002. Additionally, we will receive \$0.8 million of cash from Premier related to income tax payments. The Company agreed not to sell student planners containing the Company's "7 Habits" and "What Matters Most" content directly to schools and school districts in the K through 12 market subsequent to the closing of the sale. We recognized a pretax gain of \$99.9 million (\$64.9 million after applicable taxes) on the sale of Premier, which was recorded as a gain on the sale of discontinued operations in our consolidated statement of operations for fiscal 2002.

Cumulative Effect of Accounting Change

Effective September 1, 2001, we adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets." The provisions of SFAS No. 142 prohibit the amortization of goodwill and indefinite-lived intangible assets and require such assets to be tested for impairment and to be written down to fair value, if necessary. In order to assess the value of our goodwill and indefinite-lived intangibles as of September 1, 2001, we engaged an independent valuation firm. The valuation process assigned the Company's assets and liabilities to our operating business units and then provided a fair market value of those assets using a discounted cash flow model that also considered factors such as market capitalization and appraised values of certain assets. Based upon the results of the valuation, we expensed all of the goodwill assigned to the organizations business unit, consumer business unit, and corporate support services, plus a portion of the Covey trade name intangible asset, which has an indefinite life. The write-off totaled \$61.4 million after applicable tax benefits. Goodwill and intangible assets assigned to the education business unit, which consisted primarily of Premier, were not written down because the carrying value of that business unit's assets exceeded their book value at the measurement date. Remaining intangible assets were primarily generated from the merger with Covey Leadership Center and were assigned to the OSBU.

Preferred Stock Dividends

Preferred stock dividends increased over the prior year due to the issuance of additional shares of preferred stock during the first and second quarters of fiscal 2002 as payment for accrued preferred dividends. The Company had the option to pay accrued dividends with cash or additional shares of preferred stock until July 1, 2002. Subsequent to that date, preferred stock dividends must be paid quarterly in cash. Accordingly, the Company expects to pay all future preferred stock dividends with cash.

FISCAL 2001 COMPARED WITH FISCAL 2000

Sales

Product sales from continuing operations declined by \$64.9 million, or 18 percent, compared to fiscal 2000. The decline in product sales primarily affected the operational results of the consumer strategic business unit, which includes retail stores, catalog and eCommerce operations, and other related channels. Retail store sales decreased primarily due to reduced consumer traffic during fiscal 2001, combined with strong sales of handheld electronic planning devices and related accessories in fiscal 2000. The Company attributes the decline in consumer traffic to deteriorating general economic conditions in the United States that began in late 2000, cannibalization of existing store sales by newly opened stores, and slowing demand for various handheld electronic planning devices and accessories. These factors combined to produce a 17 percent decrease in comparable store sales, which was partially offset by the addition of 29 new stores during fiscal 2001. The Company was operating 164 stores at August 31, 2001. Catalog/eCommerce sales declined primarily due to decreased call volume in the Company's catalog operations. However, sales through the Company's web site at www.franklincovey.com continued to increase compared to the prior year and partially offset decreased catalog sales. Other CSBU sales declined primarily due to declining wholesale sales and the sale of the commercial division of Publishers Press.

Training and service sales from continuing operations decreased by \$18.0 million, or 11 percent, compared to fiscal 2000. Our training seminars and consulting services are delivered through the Organizational Solutions Group in the United States. OSG sales decreased due to reduced on-site corporate leadership and productivity seminars, corresponding reduced sales of associated training products, public program sales, and the formation of Franklin Covey Coaching, LLC to deliver coaching services. Public seminar sales declined due to an overall reduction in the number of participants attending our public programs. The Company attributes the decline in corporate and public seminar sales to economic conditions that appear to have adversely affected corporate training spending during fiscal 2001. As a result of the formation of the Franklin Covey Coaching, LLC joint venture, we no longer recognize the sales of the Personal Coaching division, but only recognize our share of net income from the joint venture. International sales were essentially flat compared to fiscal 2000, with increased sales from Mexico and Europe partially offset by sales decreases in Australia, Canada, New Zealand, and at various licensee operations.

Gross Margin

During fiscal 2001, our overall gross margin in continuing operations improved to 56.8 percent, compared to 53.5 percent in fiscal 2000. Our gross margin improved primarily due to reduced inventory costs resulting from improved procedures, the sale of the commercial division of Publishers Press, increased sales of training and services as a percent of total sales, and price increases on certain planner products and seminars. Partially offsetting these factors was the formation of Franklin Covey Coaching, LLC, which reduced our overall gross margin due to financial reporting requirements that exclude the favorable gross margins of the personal coaching business from our financial statements. Fiscal 2001 operating results did not include sales and corresponding costs from the commercial printing division of Publishers Press, which was sold effective February 28, 2000. Commercial printing sales had significantly lower margins than the majority of our other products and services. As a result of improved inventory procedures, the sale of the commercial printing operations of Publishers Press, and price increases on certain planner products, our gross margin on product sales improved to 51.6 percent of sales compared to 48.9 percent of sales in fiscal 2000.

During fiscal 2001, sales of training and consulting services, which have gross margins significantly higher than the majority of our products, increased as a percent of total sales. In addition, we implemented numerous cost savings initiatives to offset the overall decline in training and service sales. These factors combined to improve the training and services gross margin to 67.8 percent of sales compared to 64.1 percent of sales in fiscal 2000.

Operating Expenses

Our selling, general, and administrative expenses in continuing operations decreased by \$5.9 million, net of stock option purchase and relocation costs, compared to fiscal 2000. However, due to reduced sales volume, SG&A expenses increased as a percent of sales to 51.0 percent, compared to 44.1 percent in fiscal 2000. The decrease in SG&A expenses was primarily due to the formation of Franklin Covey Coaching, LLC, reduced catalog and related promotion costs, reduced associate costs, decreased international operating expenses, and cost reduction efforts in various areas of the Company. Due to the formation of the FCC joint venture, we no longer include the operating expenses of our Personal Coaching division, which totaled \$10.8 million during fiscal 2000, in our consolidated financial statements. During fiscal 2001, we reduced certain catalog and promotional expenses to improve the overall profitability of our catalog/eCommerce operations in light of declining sales, especially from our catalog operation. Due to declining sales volumes experienced during fiscal 2001, we also implemented cost saving initiatives in various operating areas of the Company. Partially offsetting these reductions were increased operating expenses resulting from the Company's 29 additional retail stores that were opened during fiscal 2001.

Depreciation expense from continuing operations increased by \$1.9 million compared to fiscal 2000, primarily due to the addition of leasehold improvements and fixtures in new stores, the purchase of computer hardware and software, and the purchase of manufacturing equipment. Amortization charges decreased \$2.2 million, primarily due to the contribution of personal coaching intangible assets to the Franklin Covey Coaching, LLC, joint venture. The amortization of these contributed intangibles was recorded in the operating results of Franklin Covey Coaching, LLC.

Equity in Earnings of Unconsolidated Subsidiary

Effective September 1, 2000, the Company entered into a joint venture agreement with AMS to form Franklin Covey Coaching, LLC. Each partner owned 50 percent of the joint venture and participated equally in its management. We accounted for our investment in Franklin Covey Coaching, LLC using the equity method of accounting and reported our share of the joint venture's net income as equity in earnings of an unconsolidated subsidiary. Our share of the joint venture's earnings totaled \$2.1 million during fiscal 2001.

Interest Income and Expense

In general, interest income and expense was affected by our unfavorable operating performance during fiscal 2001, which resulted in higher debt balances and lower cash balances when compared to fiscal 2000. In addition, interest expense increased due to larger debt balances resulting from the Company's line of credit agreement signed during the fourth quarter of fiscal 2001. The new line of credit agreement included the management stock loan participants' debt, which was previously guaranteed by the Company. As a result, we paid interest on amounts borrowed to acquire the loans. Interest is not due from the participants of the management stock loan program until the loans mature in March 2005. The Company recognized \$2.5 million of additional interest income, which was recorded as a receivable from the loan participants during fiscal 2001.

Income Taxes

Our effective income tax rate in fiscal 2001 was adversely affected by non-deductible goodwill amortization, the effects of foreign losses, and the magnified effects of other non-deductible items resulting from decreased taxable income. Amortization of goodwill primarily resulting from the merger with Covey Leadership Center and other acquisitions was not deductible for income tax purposes and had an adverse effect on our effective tax rates in fiscal 2001 and 2000.

Preferred Stock Dividends

Preferred stock dividends increased in fiscal 2001 over the prior year due to the issuance of additional shares of preferred stock as payment for accrued dividends.

QUARTERLY RESULTS

The following tables set forth selected unaudited quarterly consolidated financial data for the most recent eight quarters. The quarterly consolidated financial data reflects, in the opinion of management, all adjustments necessary to fairly present the results of operations for such periods and was revised to include the operational results of Premier and franklinplanner.com as discontinued operations. Additionally, the following quarterly information for fiscal 2002 was revised to reflect the cumulative effect of adopting the provisions of SFAS No. 142, which was retroactively recorded in our first quarter of fiscal 2002 as required by SFAS No. 142. Results of any one or more quarters are not necessarily indicative of continuing trends.

Quarterly Financial Information:

YEAR ENDED AUGUST 31, 2002

	Q1	Q2	Q3	Q4
In thousands, except per share amounts				
Sales	\$ 84,340	\$ 103,326	\$ 71,091	\$ 74,241
Gross margin	47,487	56,765	39,305	40,072
SG&A expense	56,361	58,557	49,688	52,304
Provision for losses on management stock loans	9,971	8,485	247	6,072
Impairment of investment in unconsolidated subsidiary	1,861	14,462		
Loss on impaired assets		4,518		5,667
Depreciation	8,246	8,424	7,994	8,678
Amortization	1,328	1,043	1,125	1,171
Loss from operations	(30,281)	(38,722)	(19,750)	(33,820)
Equity in earnings of unconsolidated subsidiary	863	1,028	1,274	1,151
Loss before benefit for income taxes	(35,799)	(36,387)	(18,323)	(31,670)
Loss from continuing operations	(21,479)	(23,848)	(11,489)	(39,650)
Loss from discontinued operations, net of tax	(4,173)	(1,823)	(274)	(1,314)
Gain on sale of discontinued operations, net of tax		60,774		4,077
Net income (loss) before cumulative effect of accounting change	(25,652)	35,103	(11,763)	(36,887)
Cumulative effect of accounting change, net of tax	(61,386)			
Net income (loss)	(87,038)	35,103	(11,763)	(36,887)
Preferred dividends	(2,130)	(2,183)	(2,184)	(2,184)
Net income (loss) attributable to common shareholders	\$ (89,168)	\$ 32,920	\$ (13,947)	\$ (39,071)
Diluted income (loss) per share attributable to common shareholders	\$ (4.49)	\$ 1.66	\$ (.70)	\$ (1.96)

YEAR ENDED AUGUST 31, 2001

	Q1	Q2	Q3	Q4
In thousands, except per share amounts				
Sales	\$ 125,616	\$131,500	\$88,035	\$94,630
Gross margin	75,472	73,240	47,993	53,094
SG&A expense	55,462	57,103	54,780	57,113
Provision for losses on management stock loans				1,052
Depreciation	6,061	5,951	7,513	7,916
Amortization	2,789	2,711	2,682	2,658
Income (loss) from operations	11,159	7,474	(17,283)	(16,143)
Equity in earnings of unconsolidated subsidiary	885	550	607	46
Income (loss) before provision for income taxes	10,750	7,061	(18,232)	(16,775)
Net income (loss) from continuing operations	5,042	3,312	(10,028)	(11,522)
Income (loss) from discontinued operations, net of tax	(3,712)	(4,116)	(4,559)	14,500
Net income (loss)	1,330	(804)	(14,587)	2,978
Preferred dividends	(2,028)	(2,028)	(2,028)	(2,069)
Income (loss) available to common shareholders	\$ (698)	\$ (2,832)	\$ (16,615)	\$ 909
Diluted income (loss) per share attributable to common shareholders	\$ (.03)	\$ (.14)	\$ (.84)	\$.05

The Company's quarterly results of operations reflect seasonal trends that are primarily the result of customers who renew their Franklin Planners on a calendar year basis. OSG sales are moderately seasonal because of the timing of corporate training, which is not typically scheduled as heavily during holiday and vacation periods. After the sale of Premier in fiscal 2002, the seasonal nature of our operations will reflect higher sales and significantly higher operating margins during the first and second quarters, with declines in sales and income generally occurring during the third and fourth quarters of each fiscal year.

Quarterly fluctuations may also be affected by other factors including the sale of business units, the introduction of new products or training seminars, the addition of new institutional customers, the introduction of new products, the timing of large institutional orders, and the opening or closing of retail stores.

LIQUIDITY AND CAPITAL RESOURCES

Historically, our primary sources of capital have been net cash provided by operating activities, long-term borrowings, line-of-credit financing, asset sales, and the issuance of preferred and common stock. Working capital requirements have also been financed through short-term borrowing, line-of-credit financing, and asset sales. During fiscal 2002, we used a portion of the proceeds from the sale of Premier to retire the majority of our outstanding debt and terminate our line of credit agreement. We have not sought to obtain a new line of credit financing agreement subsequent to this transaction. With significantly reduced debt balances and \$47.0 million of cash at August 31, 2002, we believe that our liquidity position is strong. However, the maintenance of adequate liquidity in future periods will be subject to the Company's future investing and financing activities, and is dependent upon the Company's ability to generate positive cash flows from operations and control capital expenditures.

Cash Flows From Operating Activities

Primarily due to a significant decline in sales and resulting operating losses during fiscal 2002, we used \$7.0 million of net cash to fund operating activities during fiscal 2002. We had significant adjustments to net loss to arrive at cash flows from operating activities in fiscal 2002, including \$62.2 million from the gain on sale of Premier, a \$61.4 million charge from the adoption of SFAS No. 142, \$42.1 million of depreciation and amortization charges, and \$24.8 million from increases to the provision for potential losses on our management stock loan program. Consistent with prior years, the primary source of cash from operating activities was the collection of accounts receivable from Premier sales, which occur primarily during our fourth fiscal quarter. The majority of Premier's accounts receivable at August 31, 2001 were collected prior to the sale of Premier in December 2001. The primary use of operating cash was the payment of Premier's accounts payable and accrued liabilities, which are seasonally high at August 31. Due to the sale of Premier in fiscal 2002, these cash flow trends in operating activities should change in future periods to reflect new seasonal sales patterns.

Due to unfavorable cash flow trends from operating activities over prior years, the Company has implemented numerous initiatives to improve cash flows from operating activities, including programs designed to increase sales, reduce operating costs, and decrease inventories during fiscal 2003 and in future periods. Although the success of these initiatives is dependent upon a number of factors, many of which are not within our control, the Company believes that we will be successful in improving our cash flows from operating activities during future periods.

Cash Flows from Investing Activities and Capital Expenditures

Primarily as a result of the sale of Premier, we recorded \$152.5 million of cash provided by investing activities during year ended August 31, 2002. During fiscal 2002, we received cash proceeds totaling \$156.5 million from the sale of Premier and received \$4.3 million of cash distributions from our investment in Franklin Covey Coaching, LLC. These investing activity cash inflows were partially offset by \$10.6 million of capital expenditures that occurred during fiscal 2002. Our fiscal 2002 capital expenditures were used to purchase computer software, computer hardware, leasehold improvements in new and remodeled retail stores, and other machinery and equipment. During fiscal 2002, we actively sought to reduce capital spending and focus our expenditures on critical equipment and projects and expect to continue to do so in future periods.

Cash Flows from Financing Activities

Cash used for financing activities in fiscal 2002 was primarily affected by our payment of substantially all of our debt balances and the termination of our line of credit facilities. We used net cash totaling \$113.9 million for financing activities, of which \$109.4 million was used to repay debt. We also used \$4.9 million of cash to settle an interest rate swap instrument and paid \$4.4 million of cash for preferred dividends during fiscal 2002. Net cash used for financing activities during fiscal 2001 totaled \$25.0 million.

Contractual Obligations

The Company has not structured any special purpose entities, or participated in any commodity trading activities, which would expose us to potential undisclosed liabilities or create adverse consequences to our liquidity. Required contractual payments consist primarily of payments to Electronic Data Systems ("EDS") for outsourcing services related to information systems, warehousing and distribution, and call center operations; rent expense for retail store and sales office space; cash payments for Series A Preferred Stock dividends; and mortgage payments on certain buildings and property. Our expected payments on these obligations over the next five years are as follows (in thousands):

Description	Maturity (Fiscal Year)						Total
	2003	2004	2005	2006	2007	Thereafter	
Minimum required payments to EDS for outsourcing services	\$ 31,298	\$ 31,431	\$ 31,428	\$ 30,246	\$ 28,919	\$ 208,031	\$ 361,353
Minimum Lease payments	16,980	14,915	11,724	8,255	6,378	21,881	80,133
Series A Preferred Stock dividend payments	8,735	8,735	8,735	8,735	8,735	-	43,675
Debt principal payments	189	83	89	96	103	1,046	1,606
Total expected payments for contractual obligations	\$ 57,202	\$ 55,164	\$ 51,976	\$ 47,332	\$ 44,135	\$ 230,958	\$ 486,767

Other Items

The Company is the creditor for a loan program that provided certain management personnel with the opportunity to purchase shares of our common stock. As a result of changes to our line of credit agreement obtained in fiscal 2001, the Company is now the creditor on these loans, which are full recourse to the participants and are recorded as a reduction to shareholders' equity in our consolidated balance sheets. For further information regarding our management stock loan program, refer to the analysis in the comparison of fiscal 2002 operating results compared to fiscal 2001. The inability of some or all of the participants to repay their loans would have a significant adverse effect upon the financial position and future cash flows of the Company.

Going forward, the Company will continue to incur costs necessary for the operation and potential growth of the business. We anticipate using cash on hand, cash provided by operating activities on the condition that we can return to positive cash flows from operations, and other financing alternatives, if necessary, for these expenditures. Management anticipates that its existing capital resources should be sufficient to enable the Company to maintain its current level of operations for the upcoming fiscal 2003. However, the ability of the Company to maintain adequate capital for our operations is dependent upon a number of factors, including sales levels, our ability to contain costs, levels of capital expenditures, and other factors. Some of the factors that influence our operations are not within our control, such as economic conditions and the introduction of competitive new technology and products. The Company will also continue to monitor its liquidity and may pursue additional financing alternatives, if required, to maintain sufficient resources for future growth and capital requirements. However, there can be no assurance such financing alternatives will be available on terms acceptable to the Company.

USE OF ESTIMATES AND CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses during the periods presented. Management regularly evaluates its estimates and assumptions including those related to allowances for doubtful accounts, sales returns and allowances, inventory valuation, the valuation of long-lived assets, valuation of its investment in Franklin Covey Coaching LLC, the calculation of the reserve on our management stock loan program, and the establishment of valuation allowances on our deferred tax assets. Management bases its estimates and assumptions on historical experience, factors that are believed to be reasonable under the circumstances, and requirements under generally accepted accounting principles. Actual results may differ from these estimates under different assumptions or conditions, including changes in the economy and other situations that are not in the control of the Company, which may have an impact on these estimates and our actual financial results. Management believes that accounting for the following areas may involve a higher degree of judgment or complexity:

Allowance for Doubtful Accounts

In the normal course of business, the Company extends credit to our customers based on financial and other criteria. The Company maintains allowances for doubtful accounts based upon estimated losses that result from the inability of customers to make required payments. Management assesses the adequacy of its allowances through analysis of the aging of accounts receivable at the date of the financial statements, assessments of historical collection trends, and the impact of current economic conditions.

Sales Returns and Allowances

Costs associated with the potential return of both products and services are recorded as a reduction of sales and are recorded as an allowance for sales and returns. These costs are based upon known returns, and trends related to the timing of returns.

Inventory Valuation

Inventories are stated at the lower of cost or market with cost determined using the first-in, first-out method. We record reductions to our inventories that are equal to the difference between the cost of the inventory and the estimated net realizable value of the inventories. Our inventories are comprised primarily of dated calendar products and other non-dated products such as binders, handheld electronic devices, stationery, and other accessories. In order to value our dated calendar products, the Company has developed a methodology that is based upon historical sales trends of dated items. Non-dated inventory items are evaluated based upon historical sales trends, technological obsolescence, new product introductions, and other factors that influence estimated realizable value. Our management regularly assesses the valuation of inventories by reviewing the costing of inventory, the significance of slow-moving inventory, and the impact of current economic conditions.

Valuation of Long-Lived Assets

We review our long-lived assets, including intangible assets and intangible assets deemed to have an indefinite life, for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In evaluating the fair value and future benefits of such assets, we perform an analysis of the expected discounted or undiscounted future net cash flows of the assets, as appropriate, over the remaining amortization period. If the carrying value of the asset exceeds the anticipated future cash flows from the asset, the Company recognizes an impairment loss equal to the deficit. Actual cash flows may differ materially from estimated future cash flows used for the evaluation of long-lived assets.

Valuation of Investment in Franklin Covey Coaching LLC

Effective September 1, 2000, we entered into a joint venture agreement with American Marketing Systems ("AMS") to form Franklin Covey Coaching, LLC ("FCC"). Each partner owned 50 percent of the joint venture and participated equally in its management. The joint venture agreement required our coaching programs to achieve specified earnings thresholds beginning in fiscal 2002 (the joint venture agreement did not contain an earnings threshold requirement in fiscal 2001) or the joint venture agreement could be terminated at the option of AMS. As a result of worse than expected performance from our programs during fiscal 2002, AMS terminated the existing joint venture agreement as of August 31, 2002. As a result of this decision, we recognized impairment charges to our investment in FCC totaling \$16.3 million during fiscal 2002. These impairment charges were based upon the expected termination of our interest in FCC and corresponding expected cash payments and expected return of certain tangible assets. Prior to the end of fiscal 2002 a new partnership agreement was obtained that could pay the Company up to \$3.5 million over the life of the agreement. For further information regarding the new partnership agreement, refer to the equity in earnings of unconsolidated subsidiary in the comparison of fiscal 2002 results with fiscal 2001.

Loan Loss Reserve on Management Stock Loan Program

The Company is the creditor for a loan program that provided certain management personnel with the opportunity to purchase shares of our common stock. These loans are full recourse to the participants and are recorded as a reduction to shareholders' equity in the Company's consolidated balance sheets. In order to assess the net realizable value of these loans, the Company utilizes a systematic methodology for determining the level of loan loss reserves that are appropriate for the management common stock loan program. A key factor considered by the Company's methodology is the current market value of common stock held by the participants. Other factors considered by the methodology include: the liquid net worth and earnings capacity of the participants; the inherent difficulties and risks of pursuing collection actions against key employees; the probability of sufficient participant repayment capability based upon the proximity to the due date of the loans; and other business, economic, and participant factors which may have an impact on the Company's ability to collect the loans.

Based upon this methodology, the Company recorded charges to operations totaling \$24.8 million during fiscal 2002 to increase the loan loss reserve. As of August 31, 2002, the Company had an aggregate loan loss reserve totaling \$25.9 million, which reduces notes and interest receivable from related parties in our consolidated balance sheets. For further information regarding the management stock loans and the corresponding reserve for loan losses, refer to Note 14 of the notes to the consolidated financial statements.

Valuation Allowances on Deferred Tax Assets

Based upon the weight of available evidence, and the nature and duration of various deferred tax assets, we determined that it is more likely than not that the related benefits from deferred tax deductions and foreign tax carryforwards will not be realized. Accordingly, we recorded the appropriate valuation allowances on our deferred tax assets during fiscal 2002.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") released SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement addresses the accounting treatment for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The provisions of the statement apply to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, or normal operation of a long-lived asset. The statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company will adopt the provisions of SFAS No. 143 during fiscal 2003, but does not expect this statement to have a material impact on our results of operations or financial position.

During June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement applies to costs associated with an exit activity, including restructuring activities, or with the disposal of long-lived assets. Exit activities can include eliminating or reducing product lines, terminating employees and related contracts, and relocating plant facilities or personnel. Under the provisions of SFAS No. 146, entities will be required to record a liability for a cost associated with an exit or disposal activity when that liability is incurred and can be measured at fair value. The provisions of SFAS No. 146 are effective for exit activities initiated after December 31, 2002. We have not completed our analysis of the provisions of SFAS No. 146, but we do not expect the guidelines found in this statement to have a material impact upon our results of operations or financial position.

During July 2002, President George W. Bush signed the Sarbanes-Oxley Act of 2002 (the "Act") into law. The Act prescribes, among other items, sweeping corporate governance and oversight changes, new reporting responsibilities for internal controls, and requires our Chief Executive Officer and Chief Financial Officer to certify the accuracy of filed reports. The various provisions of the Act have phase-in provisions and become effective at different times in the future. Subsequent to the signing of the Act into law, we have been actively engaged in defining policies and procedures that will bring the Company into compliance with the provisions of the Act. Although the Act contains significant changes to corporate governance, places greater emphasis on internal controls, and requires certification of financial statements, we do not expect the provisions of the Act to have a material impact upon the financial condition or the results of operations of the Company.

REGULATORY COMPLIANCE

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

INFLATION AND CHANGING PRICES

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

"Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995

With the exception of historical information (information relating to the Company's financial condition and results of operations at historical dates or for historical periods), the matters discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere are forward-looking statements that necessarily are based on certain assumptions and are subject to certain risks and uncertainties. Such uncertainties include, but are not limited to, unanticipated developments in any one or more of the following areas: the risk that our revenues will continue to decline, our ability to reduce costs sufficiently to permit profitable operations in connection with reduced revenues, the ability to maintain revenues at a sufficient level to recognize anticipated benefits from the EDS outsourcing agreements, unanticipated costs or capital expenditures, our ability to provide quality customer service subsequent to recent and potential associate reductions, delays or outcomes relating to the Company's restructuring plans, availability of financing sources, dependence on products or services, the rate and consumer acceptance of new product introductions, competition, the number and nature of customers and their product orders, pricing, pending and threatened litigation, and other factors which may adversely affect our business.

While the Company has a broad customer base, it is subject to variables over which it has no direct control such as innovations in competing products, the general transition from paper-based products to electronic or Internet based products, changing corporate policies on the part of the Company's customers, and competition from others in the industry. In addition, the Company is subject to changes in costs of supplies necessary to produce its products and distribution of those products. The Company's business is subject to seasonal variations and international sales. Sales outside the United States potentially present additional risks such as political, social, and economic instability, as well as exchange rate fluctuations.

The market price of the Company's common stock has been and may remain volatile. In addition, the stock markets in general have recently experienced increased volatility. Factors such as quarter-to-quarter variations in revenues and earnings or the failure of the Company to meet analysts' expectations could have a significant impact on the market price of the Company's common stock. In addition, the price of the common stock can change for reasons unrelated to the performance of the Company.

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

Item 7a. Quantitative and Qualitative Disclosures about Market Risk

MARKET RISK OF FINANCIAL INSTRUMENTS

The principal financial instrument risks to which the Company is exposed are fluctuations in foreign currency rates and interest rates. The Company utilizes certain derivative instruments to enhance its ability to manage risk. Derivative instruments are entered into for periods consistent with related underlying exposures and do not constitute positions that are independent of those exposures. In addition, we do not enter into derivative instruments for speculative purposes, nor are we party to any leveraged derivative instrument.

Foreign Exchange Sensitivity

Due to the nature of the Company's global operations, we are involved in transactions that are denominated in currencies other than the U.S. dollar, which creates exposure to currency exchange rate risk. The Company regularly utilizes foreign currency forward contracts to manage the volatility of certain intercompany and other transactions that are denominated in foreign currencies. These forward contracts are generally settled and renewed on a quarterly basis and do not meet specific hedge accounting requirements. Corresponding gains and losses have been recorded as a component of current operations, which offset gains and losses on the underlying transactions. As a result of our use of foreign currency exchange contracts, we recorded net losses totaling \$0.3 million during fiscal 2002, net gains of \$0.2 million during fiscal 2001, and net losses totaling \$0.2 million during fiscal 2000.

All of our foreign currency exchange contracts were settled prior to August 31, 2002. However, the Company intends to continue utilizing foreign currency exchange contracts in future periods to offset potential foreign currency exchange risks.

Interest Rate Sensitivity

The Company is exposed to fluctuations in U.S. interest rates primarily as a result of the cash that we hold and our borrowing activities. Following payment and termination of our line of credit facility during fiscal 2002, our remaining debt balances consisted primarily of fixed-rate long-term mortgages on our buildings and property. The following table summarizes the Company's debt obligations at August 31, 2002. For presentation purposes, the reported interest rates represent weighted average rates, with the period end rate used for variable rate debt obligations (dollars in thousands).

Debt	Maturity (Fiscal Year)					
	2003	2004	2005	2006	2007	Thereafter
Fixed rate debt	\$ 166	\$ 83	\$ 89	\$ 96	\$ 103	\$ 1,046
Average interest rate	8.73%	7.32%	7.36%	7.40%	7.44%	7.57%
Variable rate debt	\$ 23					
Average interest rate	5.25%					

At August 31, 2002, we were not party to any interest rate swap agreements or similar derivative instruments.

EURO CURRENCY CONVERSION

Since the beginning of the European Union's transition to its common currency, the Euro, on January 1, 1999 our foreign subsidiaries were able to generate billings and accept payments from clients in both the Euro and legacy currencies. The European legacy currencies remained legal tender through January 1, 2002. We did not experience a material impact on our consolidated financial position, results of operations, or cash flows resulting from the introduction of the Euro and the transition process from the legacy currencies.

Item 8. Financial Statements and Supplemental Data

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Franklin Covey Co.:

We have audited the accompanying consolidated balance sheets of Franklin Covey Co. and subsidiaries as of August 31, 2002 and 2001, and the related consolidated statements of operations and comprehensive loss, shareholders' equity, and cash flows for each of the years in the three year period ended August 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Franklin Covey Co. and subsidiaries as of August 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three year period ended August 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 4 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", in the year ended August 31, 2002.

/s/ KPMG LLP

Salt Lake City, Utah
November 19, 2002

FRANKLIN COVEY CO. CONSOLIDATED BALANCE SHEETS

August 31,	2002	2001
<i>In thousands, except per share data</i>		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 47,049	\$ 14,864
Accounts receivable, less allowance for doubtful accounts of \$1,802 and \$1,799, respectively	21,117	26,639
Inventories	39,091	42,035
Income taxes receivable		1,411
Deferred income taxes		9,737
Prepaid expenses and other assets	13,482	14,973
Assets of discontinued operations		117,252
Total current assets	120,739	226,911
Property and equipment, net	75,928	103,715
Intangible assets, net	95,955	118,302
Goodwill, net		56,273
Investment in unconsolidated subsidiary	642	16,910
Other long-term assets	11,474	14,369
	<u>\$ 304,738</u>	<u>\$ 536,480</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 12,718	\$ 19,493
Accrued liabilities	39,069	39,984
Income taxes payable	14,904	
Current portion of long-term debt	189	11,574
Current portion of capital lease obligations		380
Liabilities of discontinued operations		35,525
Total current liabilities	66,880	106,956
Line of credit		35,576
Long-term debt, less current portion	1,417	49,527
Other liabilities	1,886	7,755
Deferred income taxes		26,784
Total liabilities	70,183	226,598
Commitments and contingencies (Notes 8, 9, 10, 11, 12, 14, 22, and 24)		
Shareholders' equity:		
Preferred stock - Series A, no par value; convertible into common stock at \$14 per share; liquidation preference totaling \$89,530 at August 31, 2002; 4,000 shares authorized, 873 shares and 831 shares issued, respectively	87,203	82,995
Common stock, \$.05 par value; 40,000 shares authorized, 27,056 shares issued	1,353	1,353
Additional paid-in capital	222,953	223,898
Retained earnings	58,209	167,475
Notes and interest receivable related to financing common stock purchases by related parties, net	(12,362)	(35,977)
Accumulated other comprehensive loss	(280)	(4,681)
Treasury stock at cost, 7,089 and 7,215 shares, respectively	(122,521)	(124,395)
Accumulated other comprehensive loss from discontinued operations		(786)
Total shareholders' equity	234,555	309,882
	<u>\$ 304,738</u>	<u>\$ 536,480</u>

See accompanying notes to consolidated financial statements.

FRANKLIN COVEY CO. CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

YEAR ENDED AUGUST 31,	2002	2001	2000
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In thousands, except per share data

Net sales:

Products	\$ 221,641	\$ 298,306	\$ 363,182
Training and services	111,357	141,475	159,448
	<hr/>	<hr/>	<hr/>
	332,998	439,781	522,630
	<hr/>	<hr/>	<hr/>
Cost of sales (exclusive of stock option purchase costs totaling \$2,113 in fiscal 2000):			
Products	110,791	144,391	185,517
Training and services	38,578	45,591	57,247
	<hr/>	<hr/>	<hr/>
	149,369	189,982	242,764
	<hr/>	<hr/>	<hr/>
Gross margin	183,629	249,799	279,866
Selling, general, and administrative (exclusive of stock option purchase and relocation costs totaling \$9,114 in fiscal 2000)	216,910	224,458	230,353
Stock option purchases and relocation costs			11,227
Provision for losses on management stock loans	24,775	1,052	
Impairment of investment in unconsolidated subsidiary	16,323		
Loss on impaired assets	10,185	801	1,940
Restructuring cost reversals			(4,946)
Depreciation	33,342	27,441	25,517
Amortization	4,667	10,840	13,069
	<hr/>	<hr/>	<hr/>
Income (loss) from operations	(122,573)	(14,793)	2,706
Equity in earnings of unconsolidated subsidiary	4,316	2,088	
Interest income	3,112	3,180	1,079
Interest expense	(2,784)	(7,671)	(5,537)
Loss on settlement of interest rate swap	(4,894)		
Other income (expense), net	644		(174)
	<hr/>	<hr/>	<hr/>
Loss from continuing operations before income taxes	(122,179)	(17,196)	(1,926)
Benefit (provision) for income taxes	25,713	4,000	(5,546)
	<hr/>	<hr/>	<hr/>
Loss from continuing operations	(96,466)	(13,196)	(7,472)
Income (loss) from discontinued operations, net of tax provision (benefit) totaling \$(4,055), \$4,267, and \$4,416, respectively	(7,584)	2,113	3,063
Gain on sale of discontinued operations, net of tax provision totaling \$35,094	64,851		
	<hr/>	<hr/>	<hr/>
Loss before cumulative effect of accounting change	(39,199)	(11,083)	(4,409)
Cumulative effect of accounting change, net of tax benefit totaling \$13,948	(61,386)		
	<hr/>	<hr/>	<hr/>
Net loss	(100,585)	(11,083)	(4,409)
Preferred stock dividends	(8,681)	(8,153)	(8,005)
	<hr/>	<hr/>	<hr/>
Net loss attributable to common shareholders	\$ (109,266)	\$ (19,236)	\$ (12,414)
Loss from continuing operations and preferred stock dividends per share:			
Basic and diluted	\$ (5.29)	\$ (1.06)	\$ (.76)
	<hr/>	<hr/>	<hr/>
Net loss attributable to common shareholders per share:			
Basic and diluted	\$ (5.49)	\$ (.95)	\$ (.61)
	<hr/>	<hr/>	<hr/>
Basic and diluted weighted average number of common and common equivalent shares	19,895	20,199	20,437
	<hr/>	<hr/>	<hr/>
COMPREHENSIVE LOSS:			
Net loss attributable to common shareholders	(109,266)	(19,236)	(12,414)
Market value of interest rate swap agreement, net of tax	2,786	(2,786)	
Foreign currency translation adjustment	574	(732)	660
	<hr/>	<hr/>	<hr/>
Comprehensive loss	\$ (105,906)	\$ (22,754)	\$ (11,754)
	<hr/>	<hr/>	<hr/>

See accompanying notes to consolidated financial statements.

FRANKLIN COVEY CO. CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Series A Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Notes and Interest Receivable	Deferred Compensation	Accumulated Other Comprehensive Loss	Treasury Stock		Total Share- Holders' Equity
	Shares	Amount	Shares	Amount						Shares	Amount	
<i>In thousands</i>												
Balance at August 31, 1999	750	\$ 75,000	27,056	\$ 1,353	\$ 235,632	\$ 199,125	\$	\$ (320)	\$ (782)	(6,676)	\$ (131,574)	\$ 378,434
Issuance of Series A preferred stock	42	4,092										4,092
Preferred stock dividends						(8,005)						(8,005)
Tax benefit from exercise of affiliate stock options												
Issuance of common stock from					557							557

treasury				(10,441)					925	17,404	6,963	
Purchase of treasury shares									(688)	(5,482)	(5,482)	
Issuance of note receivable from sale of common stock							(894)	262			(894)	
Deferred Compensation											262	
Cumulative translation adjustment									660		660	
Dividends on Series A preferred stock paid with additional shares of Series A preferred stock	19	1,875									1,875	
Net loss						(4,409)					(4,409)	
Balance at August 31, 2000	811	80,967	27,056	1,353	225,748	186,711	(894)	(58)	(122)	(6,439)	(119,652)	374,053
Preferred stock dividends						(8,153)						(8,153)
Tax benefit from exercise of affiliate stock options					25							25
Issuance of common stock from treasury					(1,875)					165	2,712	837
Purchase of treasury shares									(941)	(7,455)	(7,455)	(7,455)
Deferred compensation								58				58
Cumulative translation adjustment									(732)			(732)
Purchase of notes receivable and accrued interest receivable related to purchases of common stock by related parties, net							(35,083)					(35,083)
Dividends on Series A preferred stock paid with additional shares of Series A preferred stock	20	2,028										2,028
Valuation of derivative financial instrument										(4,613)		(4,613)
Net loss						(11,083)						(11,083)
Balance at August 31, 2001	831	82,995	27,056	1,353	223,898	167,475	(35,977)		(5,467)	(7,215)	(124,395)	309,882
Preferred stock dividends						(8,681)						(8,681)
Issuance of common stock from treasury					(1,445)					151	1,947	502
Purchase of treasury shares										(25)	(73)	(73)
Cumulative translation adjustment									574			574
Dividends on Series A preferred stock paid with additional shares of Series A preferred stock	42	4,208										4,208
Additions to reserve for management loan losses							24,775					24,775
Interest on participant loans							(1,160)					(1,160)
Settlement of interest rate swap									4,613			4,613
CEO compensation contribution					500							500
Net loss						(100,585)						(100,585)
Balance at August 31, 2002	873	\$ 87,203	27,056	\$ 1,353	\$ 222,953	\$ 58,209	\$ (12,362)	\$	\$ (280)	(7,089)	\$ (122,521)	\$ 234,555

See accompanying notes to consolidated financial statements.

FRANKLIN COVEY CO. CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED AUGUST 31,	2002	2001	2000
In thousands			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (100,585)	\$ (11,083)	\$ (4,409)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:			
Depreciation and amortization	42,052	47,873	48,805
Gain on sale of discontinued operations, net of tax	(64,851)		
Cumulative effect of accounting change, net of tax	61,386		
Provision for losses on management stock loan program	24,775	1,052	
Impairment of investment in unconsolidated subsidiary	16,323		
Deferred income taxes	(16,152)	637	1,562
Loss on impaired assets	10,185	801	1,940
Loss on settlement of interest rate swap	4,894		
Equity in earnings of unconsolidated subsidiary	(4,316)	(2,088)	
Payments for interest on management loan program	(796)	(2,229)	
Other	160	58	262
Changes in assets and liabilities, net of effects from acquisitions:			
Decrease in accounts receivable, net	51,124	5,610	4,639
Decrease in inventories	3,413	8,303	3,943
Increase in other assets	(4,167)	(1,151)	(13,282)
Increase (decrease) in accounts payable and accrued liabilities	(19,579)	(10,814)	5,804
Decrease in accrued restructuring costs	(582)	(2,648)	(11,040)
Increase (decrease) in other long-term liabilities	(1,256)	(144)	3,286
Increase (decrease) in income taxes payable	(9,049)	(1,811)	9,113
Net cash provided by (used for) operating activities	(7,021)	32,366	50,623
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of discontinued operations	156,512		
Purchases of property and equipment, net of effects from acquisitions	(10,594)	(27,027)	(24,523)
Formation of joint venture, acquisition of businesses, and earnout payments		(4,432)	(21,444)
Cash distribution of earnings from unconsolidated subsidiary	4,261	3,354	
Proceeds from sale of property and equipment, net	2,327	15,096	7,032
Net cash provided by (used for) investing activities	152,506	(13,009)	(38,935)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term line of credit borrowings		12,388	21,061
Principal payments on short-term line of credit borrowings	(9,750)	(20,522)	(4,573)
Proceeds from long-term debt and line of credit, net of effects from acquisitions	4,370	33,951	76,308
Principal payments on long-term debt, long-term line of credit, and capital lease obligations	(99,661)	(38,323)	(109,502)
Payment of interest rate swap liability	(4,894)		
Purchases of common stock for treasury	(73)	(7,455)	(5,483)
Proceeds from issuance of common stock from treasury	502	1,042	6,069
Proceeds from issuance of Series A Preferred Stock, net			4,092
Payment of preferred stock dividends	(4,367)	(6,084)	(5,977)
Net cash used for financing activities	(113,873)	(25,003)	(18,005)
Effect of foreign currency exchange rates on cash and cash equivalents	573	(732)	778
Net increase (decrease) in cash and cash equivalents	32,185	(6,378)	(5,539)
Cash and cash equivalents at beginning of the year	14,864	21,242	26,781
Cash and cash equivalents at end of the year	\$ 47,049	\$ 14,864	\$ 21,242

FRANKLIN COVEY CO. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Franklin Covey Co. (the "Company", "we", "our") provides integrated training and performance enhancement solutions to organizations and individuals in productivity, leadership, sales, communication, and other areas. Each integrated solution may include components for training and consulting, assessment, and other application tools that are generally available in electronic or paper-based formats. Our products and services are available through professional consulting services, public workshops, retail stores, catalogs, and the Internet at www.franklincovey.com. The Company's best-known offerings include the Franklin PlannerTM, our productivity workshop entitled "What Matters Most", and courses based on the best-selling book, *The 7 Habits of Highly Effective People*.

Fiscal Year

The Company utilizes a modified 52/53 week fiscal year that ends on August 31 of each year. Corresponding quarterly periods generally consist of 13-week periods that ended on November 24, 2001, February 23, 2002, and May 25, 2002 during fiscal 2002. Unless otherwise noted, references to fiscal 2003, fiscal 2002, fiscal 2001, and fiscal 2000 apply to the 12 months ending or ended on August 31, 2003, 2002, 2001, and 2000, respectively.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and our subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The results of Franklin Covey Coaching, LLC, a 50 percent owned joint venture (Note 5), were accounted for using the equity method in the accompanying consolidated financial statements.

Due to the discontinued operations presentation resulting from (1) the sale of Premier Agendas ("Premier"), and (2) the termination of franklinplanner.com's operations, the fiscal 2001 and fiscal 2000 presentations have been revised to be comparable to the fiscal 2002 presentation.

Pervasiveness of Estimates

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

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. As of August 31, 2002, we had demand deposits at various banks in excess of the \$100,000 limit for insurance by the Federal Deposit Insurance Corporation. Our cash equivalents totaled \$28.2 million at August 31, 2002. We had no significant cash equivalents as of August 31, 2001.

Trade Accounts Receivable

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

Inventories

Inventories are stated at the lower of cost or market, cost being determined using the first-in, first-out method. Elements of cost in inventories generally include raw materials, direct labor, manufacturing overhead, and freight in.

Property and Equipment

Our property and equipment balances are stated at cost less accumulated depreciation or amortization. Depreciation and amortization, which includes the amortization of assets recorded under capital lease obligations, are generally calculated using the straight-line method over the expected useful lives of the assets as follows:

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

Leasehold improvements are amortized over the lesser of the useful economic life of the asset or the contracted lease period. We charge expenditures for maintenance and repairs to expense as incurred. Gains and losses resulting from the sale of property and equipment are recorded in current operations except for significant infrequent property sales, such as buildings and land, which are recorded as components of other income and expense.

Goodwill and Intangible Assets

On September 1, 2001, we adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." The provisions of SFAS No. 142 prohibit the amortization of goodwill and certain intangible assets that are deemed to have indefinite lives. Goodwill and indefinite-lived intangibles are required to be tested periodically for impairment and written down, if necessary. Amortized intangible assets are required to be tested for recoverability using undiscounted cash flows as prescribed by SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." In connection with the implementation of SFAS No. 142, the Company recognized a \$61.4 million, net of tax, impairment charge to operations that has been recorded as a cumulative effect of accounting change in our consolidated statement of operations for fiscal 2002. For further information regarding our goodwill and other intangible assets, refer to Note 4.

Prior to the adoption of SFAS No. 142, goodwill, which represents the excess of purchase price over the fair value of net assets acquired, was amortized on a straight-line basis over the expected periods to be benefited, not to exceed 40 years. Goodwill was previously assessed for recoverability by determining whether the amortization of the goodwill balance over its remaining life could be recovered through the undiscounted future operating cash flows of the acquired entity. The amount of goodwill impairment, if any, was measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds.

Long-Lived Assets

During fiscal 2002, we adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Accordingly, we review our long-lived assets, such as property and equipment and definite-lived intangibles subject to amortization, for impairment whenever events or changes in circumstances may indicate that the carrying value of an asset may not be recoverable. As required by SFAS No. 144, we use an estimate of the future undiscounted net cash flows of the related asset or group of assets over their remaining lives in measuring whether the assets are recoverable. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount exceeds the estimated fair value of the asset. Impairment of long-lived assets is assessed at the lowest levels for which there are identifiable cash flows that are independent of other groups of assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less the estimated costs to sell. In addition, depreciation of the asset ceases. Losses on impaired assets are recorded as a separate component of operating expenses in our consolidated statements of operations.

Restricted Investments

Our restricted investments consist of investments in mutual funds that are held in a "rabbi trust" and are restricted for payment to the participants of the Company's deferred compensation plan (Note 17). We account for our restricted investments using SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." As required by this statement, we determine the proper classification of investments at the time of purchase and reassess such designations at each balance sheet date. At August 31, 2002 and 2001, our restricted investments were classified as trading securities and recorded as a component of other long-term assets in our consolidated balance sheets.

In accordance with SFAS No. 115, our unrealized losses on restricted investments, which were immaterial for fiscal years 2002, 2001, and 2000 were recognized in the accompanying consolidated statements of operations for fiscal years 2002, 2001, and 2000 as a component of selling, general, and administrative expense.

Accrued Liabilities

The significant components of our accrued liabilities from continuing operations were as follows for the periods indicated (in thousands):

August 31,	2002	2001
Accrued EDS outsourcing costs	\$ 5,766	\$ 2,817
Accrued compensation	5,253	5,949

Unearned revenue	3,899	4,250
Other accrued liabilities	24,151	26,968
	\$39,069	\$39,984

Foreign Currency Translation and Transactions

Translation adjustments result from translating our foreign subsidiaries' financial statements into United States dollars. The balance sheet accounts of our foreign subsidiaries were translated into U.S. dollars using the exchange rate in effect at the balance sheet date. Revenues and expenses were translated using average exchange rates during the year. The resulting translation gains or losses were recorded as a component of accumulated other comprehensive loss in shareholders' equity. Transaction gains and losses were reported in current operations.

Derivative Instruments

We account for derivative instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and as modified by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." During the normal course of business, the Company is exposed to risks associated with foreign currency exchange and interest rate fluctuations. In order to hedge our exposure to these elements, we have made limited use of derivative instruments. The fair value of each derivative that qualifies for hedge accounting is recognized in the balance sheet at its fair value. Changes in the fair value of derivative instruments that are not designated as hedge instruments are immediately recognized in our consolidated statements of operations. At August 31, 2002, the Company was not a party to any derivative instrument. For further information on our use of derivative instruments, refer to Note 10.

Revenue Recognition

We recognize product revenue when title and risk of loss are transferred to customers based upon terms of the sale, which is generally upon shipment or delivery of the product. We recognize training and service revenue upon presentation of the training seminar, delivery of consulting services, or shipment of training manuals. Revenue is recognized as the net amount to be received after deducting estimated amounts for discounts and product returns.

Shipping and Handling Fees and Costs

All shipping and handling fees billed to customers were recorded as a component of sales. All costs incurred related to shipping and handling of products or training services were recorded as a component of cost of sales.

Retail Store Pre-Opening Costs

Pre-opening costs associated with new retail stores were charged to expense as incurred.

Advertising Costs

Costs for newspaper, television, radio, and other advertising were expensed as incurred or recognized over the period of expected benefit for direct response and catalog advertising. Direct response advertising costs consist primarily of printing and mailing costs for catalogs and seminar mailers that were charged to expense over the period of projected benefit, which ranges from three to 12 months. Total advertising costs in continuing operations were \$30.3 million, \$31.9 million, and \$36.2 million for the years ended August 31, 2002, 2001, and 2000, respectively. Our prepaid catalog and seminar mailer costs reported in other current assets were \$5.4 million and \$5.2 million at August 31, 2002 and 2001, respectively.

Research and Development Costs

The Company expenses research and development costs as incurred in accordance with generally accepted accounting principles in the United States. During fiscal 2002, 2001, and 2000, we expensed \$4.9 million, \$3.9 million, and \$6.2 million, respectively, of research and development costs which were recorded as a component of selling, general, and administrative expenses in our consolidated financial statements.

Income Taxes

The provision for income taxes has been determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred income taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred income taxes result from differences between the financial and tax bases of our assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted.

Based upon the weight of available evidence, and the nature and duration of various deferred tax assets, we determined that it is more likely than not that the related benefits from deferred tax deductions and foreign tax carryforwards will not be realized. Accordingly, we recorded the appropriate valuation allowances on our deferred tax assets during fiscal 2002.

Comprehensive Income/Loss

Comprehensive income/loss includes charges and credits to equity accounts that were not the result of transactions with shareholders. Comprehensive income/loss is comprised of net loss attributable to common shareholders and other comprehensive income/loss items. Our comprehensive income and losses consisted of changes in the fair value of derivative instruments and changes in the cumulative foreign currency translation adjustments. The changes in cumulative foreign currency translation adjustments were not adjusted for income taxes as they relate to specific indefinite investments in foreign subsidiaries.

Stock-Based Compensation

We account for stock-based compensation and awards using the intrinsic-value based method of accounting as outlined in Accounting Principles Board ("APB") Opinion 25 and related interpretations. Under the intrinsic-value methodology, no compensation cost is recognized for stock option awards granted at, or above, the fair market value of the stock on the date of grant. Restricted stock awards result in the recognition of deferred compensation, which was recorded as a reduction of shareholders' equity and was amortized to operating expense over the vesting period of the stock award. We amortized deferred stock compensation over the vesting period of each award using the straight-line method. At August 31, 2002, there were no remaining unamortized restricted stock awards. For further information on our stock-based compensation plans, refer to Note 13.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") released SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement addresses the accounting treatment for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The provisions of the statement apply to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, or normal operation of a long-lived asset. The statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company will adopt the provisions of SFAS No. 143 during fiscal 2003, but does not expect this statement to have an impact on our operations or financial position.

During June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement applies to costs associated with an exit activity, including restructuring activities, or with the disposal of long-lived assets. Exit activities can include eliminating or reducing product lines, terminating employees and related contracts, and relocating plant facilities or personnel. Under the provisions of SFAS No. 146, entities will be required to record a liability for a cost associated with an exit or disposal activity when that liability is incurred and can be measured at fair value. The provisions of SFAS No. 146 are effective for exit activities initiated after December 31, 2002. We have not completed our analysis of the provisions of SFAS No. 146, but we do not expect the guidelines found in this statement to have a material impact upon our operations or financial position.

2. INVENTORIES

Inventories of continuing operations were comprised of the following (in thousands):

August 31,		
	2002	2001
Finished goods	\$ 30,615	\$ 30,659
Work-in-process	1,141	1,507
Raw Materials	7,335	9,869
	\$ 39,091	\$ 42,035

3. PROPERTY AND EQUIPMENT

Property and equipment of continuing operations were comprised of the following (in thousands):

August 31,		
	2002	2001
Land and improvements	\$ 2,111	\$ 4,982
Buildings	35,534	34,146
Machinery and equipment	32,912	35,220

Computer hardware and software	71,767	81,774
Furniture, fixtures, and leasehold improvements	57,487	58,166
	199,811	214,288
	(123,883)	(110,573)
Less accumulated depreciation and amortization		
	\$ 75,928	\$103,715

Certain land and buildings represent collateral for mortgage debt obligations (Note 8).

4. INTANGIBLE ASSETS AND GOODWILL

During June 2001, the FASB issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets." The new reporting provisions of SFAS No. 142 prohibit the amortization of goodwill and certain intangible assets that are deemed to have indefinite lives and requires such assets to be tested and written down to fair value, if necessary. The new standards also prescribe valuation procedures for intangible assets subject to amortization that are consistent with the guidelines found in SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." We elected to adopt the provisions of SFAS No. 141 and SFAS No. 142 during fiscal 2002.

Our intangible assets were comprised of the following for the periods indicated (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount of Intangibles
August 31, 2002			
Amortized Intangible Assets:			
License rights	\$ 27,000	\$ (3,669)	\$ 23,331
Curriculum	62,320	(22,853)	39,467
Customer lists	18,874	(8,799)	10,075
Trade names	<u>1,277</u>	<u>(1,195)</u>	<u>82</u>
	109,471	(36,516)	72,955
Unamortized Intangible Asset:			
Covey trade name	<u>27,857</u>	<u>(4,857)</u>	<u>23,000</u>
Balance at August 31, 2002	\$ 137,328	\$ (41,373)	\$ 95,955
August 31, 2001			
Amortized Intangible Assets			
License rights	\$ 27,000	\$ (2,869)	\$ 24,131
Curriculum	63,086	(20,962)	42,124
Customer lists	18,874	(7,784)	11,090
Trade names	<u>1,277</u>	<u>(1,007)</u>	<u>270</u>
	110,237	(32,622)	77,615
Unamortized Intangible Asset:			
Covey trade name	<u>45,544</u>	<u>(4,857)</u>	<u>40,687</u>
Balance at August 31, 2001	\$ 159,781	\$ (37,479)	\$ 118,302

Our aggregate amortization expense from continuing operations for the years ended August 31, 2002 and 2001 totaled \$4.7 million and \$10.8 million, respectively. Estimated amortization expense from continuing operations for the next five years is expected to be as follows (in thousands):

Year Ending August 31,

2003	\$4,384
2004	4,011
2005	4,011
2006	3,188
2007	3,131

We review our amortized intangible assets for impairment whenever events or circumstances indicate that the carrying amount of the asset may not be realizable. We assess our amortized intangible assets using estimated future undiscounted cash flows as prescribed by SFAS No. 144.

We elected to adopt the provisions of SFAS No. 142 on September 1, 2001 and hired an independent valuation firm to assess the value of our goodwill and indefinite-lived intangibles in accordance with the new measurement requirements of SFAS No. 142. The valuation process assigned the Company's assets to our operating business units and then determined the fair market value of those assets using a discounted cash flow model that also considered factors such as market capitalization and the appraised values of certain assets. Based upon the results of the valuation, the goodwill assigned to the Organizational Strategic Business Unit, Consumer Strategic Business Unit, and corporate support group, plus a portion of the Covey trade name intangible asset were impaired. The resulting write-off from the adoption of SFAS No. 142 totaled \$75.3 million (\$61.4 after applicable tax benefits). We also reduced the amortization period of certain amortized intangible assets in accordance with SFAS No. 142. The impairment loss was comprised of the following items (in thousands):

	Amount
Impaired goodwill	\$ 61,682
Impaired Covey trade name intangible asset	13,652
Total SFAS No. 142 adoption impairment loss	\$ 75,334

In connection with the adoption of SFAS No. 142, we recorded a \$13.7 million impairment charge to the Covey trade name intangible, which has an indefinite life and is no longer amortized. As required by SFAS No. 142, the carrying amount of the Covey trade name was reassessed at August 31, 2002, and based upon the same valuation methodology used in the adoption of SFAS No. 142, an additional \$4.0 million was impaired. The additional impairment was recorded as a component of loss on impaired assets (Note 15) in our consolidated statement of operations for the fiscal year ended August 31, 2002. The Covey trade name intangible asset was valued using the present value of estimated royalties derived from trade name related revenues, which consist primarily of training seminars and related items.

Goodwill and intangible assets assigned to the Education Business Unit, which consisted primarily of Premier, were not written down because the fair values of that business unit's assets exceeded their carrying amounts at the measurement date. The changes in the net carrying amount of goodwill for the year ended August 31, 2002 were as follows (in thousands):

	Organizations Strategic Business Unit	Consumer Strategic Business Unit	Corporate/ Education Business Unit
Balance at September 1, 2001	\$ 45,684	\$ 10,589	\$ 44,368
Impairment loss from adoption of SFAS No. 142	(45,684)	(10,589)	(5,409)
Goodwill written off related to sale of Premier			(38,959)
Balance at August 31, 2002	\$ -	\$ -	\$ -

If the provisions of SFAS No. 142 were in effect at September 1, 1999, and the adjustment was the same as in fiscal 2002, the following unaudited pro forma financial results would have occurred. Amounts presented below were adjusted to reflect Premier and franklinplanner.com as discontinued operations for comparability to amounts reported in the accompanying consolidated statement of operations for fiscal 2002 (in thousands).

Fiscal Year Ended August 31,

(Unaudited)	2002	2001	2000
Reported loss from continuing operations before			

income tax benefit	\$ (122,179)	\$ (17,196)	\$ (1,926)
Add back: Goodwill amortization		6,449	6,702
Add back: Indefinite-lived intangible amortization		1,139	1,139
Deduct: Revised estimated useful life amortization		(262)	(262)
Adjusted income (loss) from continuing operations before income tax benefit	(122,179)	(9,870)	5,653
Adjusted income tax benefit (provision)	25,713	1,641	(8,048)
Adjusted loss from continuing operations	(96,466)	(8,229)	(2,395)
Adjusted income (loss) from discontinued operations, net of tax	(7,584)	6,482	6,997
Gain on sale of discontinued operations, net of tax	64,851		
Adjusted net income (loss)	(39,199)	(1,747)	4,602
Preferred dividends	(8,681)	(8,153)	(8,005)
Net loss attributable to common shareholders	\$ (47,880)	\$ (9,900)	\$ (3,403)

Basic and Diluted Earnings per Share (Unaudited):

Reported loss from continuing operations and preferred stock dividends	\$ (5.29)	\$ (1.06)	\$ (.76)
Goodwill amortization		.32	.33
Indefinite-lived intangible amortization		.06	.05
Revised estimated useful life amortization		(.01)	(.01)
Income tax adjustment		(.12)	(.12)
Adjusted loss from continuing operations	(5.29)	(.81)	(.51)
Adjusted income (loss) from discontinued operations	(.38)	.32	.34
Gain on sale of discontinued operations, net of tax	3.26		
Adjusted net loss attributable to common shareholders	\$ (2.41)	\$ (.49)	\$ (.17)
Basic and diluted weighted average number of common shares outstanding	19,895	20,199	20,437

The preceding unaudited pro forma schedules were adjusted to reflect applicable tax rates as though the provisions of SFAS No. 142 were effective September 1, 1999. Amortization expense excluded from discontinued operations under the provisions of SFAS No. 142 totaled \$5.4 million and \$4.8 million in fiscal 2001 and 2000. The adjusted discontinued operations tax provisions were \$5.3 million and \$5.2 million for fiscal 2001 and 2000, respectively.

5. INVESTMENT IN UNCONSOLIDATED SUBSIDIARY

Effective September 1, 2000, we entered into a joint venture agreement with American Marketing Systems ("AMS") to form Franklin Covey Coaching, LLC ("FCC"). Each partner owned 50 percent of the joint venture and participated equally in its management. We accounted for our investment in FCC using the equity method of accounting and reported our share of the joint venture's net income as equity in the earnings of an unconsolidated subsidiary in our consolidated financial statements. The Company's share of FCC's earnings totaled \$4.3 million and \$2.1 million for the fiscal years ended August 31, 2002 and 2001, respectively. Summarized financial information for FCC as of and for the years ended August 31, 2002 and 2001 was as follows (in thousands):

August 31,

	2002	2001
Net sales	\$ 26,392	\$ 21,591
Gross profit	18,331	14,192
Net income	9,935	5,936
Current assets	\$ 7,718	\$ 5,296
Long-term assets	17,385	17,315
Total assets	\$ 25,103	\$ 22,611
Current liabilities	\$ 8,626	\$ 6,157
Long-term liabilities	67	174
Total liabilities	\$ 8,693	\$ 6,331
Members' equity	\$ 16,410	\$ 16,280

The joint venture agreement required the Company's coaching programs to achieve specified earnings thresholds beginning in fiscal 2002 (the joint venture agreement did not contain an earnings threshold requirement in fiscal 2001) or the existing joint venture agreement could be terminated at the option of AMS. Based upon available information, the Company's management believed that the required earnings threshold in fiscal 2002 could be reached through increased business from existing coaching programs and the creation of new programs. However, due to unfavorable economic conditions and other factors, the Company's coaching programs did not produce \$3.2 million in earnings as required for fiscal 2002. As a result, AMS exercised its option to terminate the existing joint venture agreement effective August 31, 2002.

Based upon our coaching program performance throughout fiscal 2002, and expected termination of our interest in FCC, we recognized \$16.3 million of impairment charges to our investment in FCC during the first two quarters of fiscal 2002. The impairment charges were based upon currently available information related to negotiations with AMS throughout fiscal 2002. Under the provisions of a new partnership agreement that eventually terminates our interest in FCC, we received a \$0.3 million payment at the end of fiscal 2002, will receive payments totaling \$2.0 million during fiscal 2003, and may receive an additional \$1.2 million in payments from AMS and FCC. The new partnership agreement payments are comprised of the following three components:

Ownership Change Payment – On August 30, 2002, AMS paid the Company \$0.3 million for our Class A ownership shares in FCC and issued Class B shares to us. The Class B ownership shares prohibit the Company from active participation in the management of FCC, but provide us the opportunity to receive a portion of FCC's earnings as described below.

FCC Net Income Recognition – During fiscal 2003, we will continue to recognize a portion of FCC's net income and receive cash distributions totaling \$2.0 million. As the Company receives these payments during fiscal 2003, we will first reduce our remaining investment in FCC to zero and recognize the excess amount as an offset to operating expenses, rather than as equity in the earnings of an unconsolidated subsidiary. Based upon current operating trends at FCC, we anticipate receiving the entire \$2.0 million of cash distribution payments during fiscal 2003.

Contingent Program Payment – The third component of the new partnership agreement is contingent upon the earnings of our coaching programs during fiscal 2003 and September 2003. If our coaching programs achieve earnings before interest, taxes, depreciation, and amortization ("EBITDA") greater than \$1.2 million during the 13 month period ended September 30, 2003, then a final payment will be made in October 2003, for the entire contingent program payment. The contingent payment may not exceed \$1.2 million, however, the contingent payment may be reduced on a dollar-for-dollar basis if our coaching programs fail to produce \$1.2 million of EBITDA during the measurement period. We will record the contingent program payment receivable as a component of other current assets to the extent it is earned during the measurement period by our coaching program financial results.

Following receipt of the new partnership agreement payments, we will have no further profit participation in the earnings of FCC. As of August 31, 2002, our remaining net investment in Franklin Covey Coaching, LLC totaled \$0.6 million.

6. CAPITALIZED COMPUTER SOFTWARE COSTS

In the normal course of business, we develop productivity and leadership training software products for sale to customers through our various distribution channels. We capitalize costs associated with the development of software products in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed" and related pronouncements. Capitalized computer software development costs totaled \$3.8 million and \$3.6 million at August 31, 2002 and 2001, respectively. Capitalized computer software costs were recorded as a component of other long-term assets in our consolidated balance sheets.

Capitalized computer software costs are generally amortized based upon units sold, with a maximum useful life of two years from the software release date. We review our capitalized computer software costs for impairment whenever circumstances indicate that the carrying amount of the asset may not be realizable. We assess current product sales trends as well as estimates of future sales and corresponding undiscounted cash flows as prescribed by SFAS No. 144. Amortization of capitalized computer software costs is recorded as a component of cost of sales and impaired computer software costs were recorded as a separate component of operating expenses in the accompanying consolidated statements of operations. Total amortization expense and impairment charges were as follows for the periods indicated (in thousands):

Fiscal Year Ended
August 31,

	2002	2001	2000
Amortization expense	\$ 1,678	\$ 1,117	\$ 2,156
Impairment charges	1,758	801	1,940

Subsequent to the software product release date, costs for maintenance, including minor upgrades are expensed as incurred.

7. DISCONTINUED OPERATIONS

During fiscal 2002, we sold the operations of Premier Agendas and discontinued our on-line planning service offered at franklinplanner.com. Under the provisions of SFAS No. 144, these operations were classified as discontinued operations in our consolidated financial statements. The operating results of Premier and franklinplanner.com were recorded as discontinued operations, net of tax, in the accompanying consolidated statements of operations and consisted of the following (in thousands). The operating results of Premier during fiscal 2002 include results from September 1, 2001 through December 21, 2001, the closing date of the sale, a period during which Premier does not recognize significant sales. The operations of franklinplanner.com were discontinued during August 2002.

Fiscal Year Ended
August 31,

	2002	2001	2000
Income (loss) from Premier operations, net of tax	\$ (5,844)	\$ 5,190	\$ 4,486
Loss from franklinplanner.com operations, net of tax	(1,740)	(3,077)	(1,423)
Income (loss) from discontinued operations	\$ (7,584)	\$ 2,113	\$ 3,063

The income tax provision (benefit) attributable to Premier and franklinplanner.com operations was as follows for the periods indicated (in thousands):

Fiscal Year Ended
August 31,

	2002	2001	2000
Tax provision (benefit) from Premier Agendas	\$ (3,033)	\$ 6,074	\$ 5,251
Tax benefits from Franklinplanner.com operations	(1,022)	(1,807)	(835)
Tax provision (benefit) from discontinued operations	\$ (4,055)	\$ 4,267	\$ 4,416

The carrying amounts of assets and liabilities for Premier and franklinplanner.com, which were disclosed as discontinued operations in our consolidated balance sheet at August 31, 2001, were as follows (in thousands):

Description	Premier Agendas	franklinplanner.com	Total
Accounts receivable, net	\$ 52,188		\$ 52,188
Inventories	3,138		3,138
Other current assets	2,091	\$ 12	2,103
Property and equipment, net	6,866	1,727	8,593
Intangible assets, net	6,266	596	6,862
Goodwill, net	38,959	5,409	44,368
Total assets of discontinued operations	\$ 109,508	\$ 7,744	\$ 117,252
Line of credit	\$ 9,750		\$ 9,750
Accounts payable	7,178		7,178
Current portion of			

Long-term debt and capital lease obligations	1,720		1,720
Income taxes payable	4,219		4,219
Other current liabilities	8,005	\$ 182	8,187
Long-term debt, less current portion	413		413
Deferred income taxes	4,058		4,058
Total liabilities of discontinued operations	\$ 35,343	\$ 182	\$ 35,525
Cumulative translation adjustment	\$ (786)		\$ (786)

Additional information regarding the sale of Premier Agendas and the termination of franklinplanner.com is provided below.

Sale of Premier Agendas

Effective December 21, 2001, we sold Premier Agendas, Inc., a wholly owned subsidiary located in Bellingham, Washington, and Premier School Agendas Ltd., a wholly owned subsidiary organized in Ontario, Canada, (collectively, "Premier") to School Specialty, Inc., a Wisconsin-based company that specializes in providing products and services to students and schools. Premier provided productivity and leadership solutions to the educational industry, including student and teacher planners. The sale price was \$152.5 million in cash plus the retention of Premier's working capital, which was received in the form of a \$4.0 million promissory note from the purchaser. Prior to the sale closing, we received cash distributions from Premier's working capital that totaled approximately \$7.0 million. The Company received full payment on the promissory note plus accrued interest during June 2002. Additionally, we will receive \$0.8 million of cash from Premier related to estimated income tax payments and tax benefits from net operating losses. The Company has agreed not to sell student planners containing the Company's "7 Habits" and "What Matters Most" content directly to schools and school districts in the K through 12 market subsequent to the closing. We recognized a pretax gain of \$99.9 million (\$64.9 million after applicable taxes) on the sale of Premier, which was recorded as a gain on the sale of discontinued operations in the consolidated statement of operations for fiscal 2002. As part of the sale of Premier, the Company retained responsibility for certain outstanding legal claims against Premier, which were settled subsequent to August 31, 2002 (Note 11).

The operating results of Premier were historically included in the education segment for segment reporting purposes (Note 21). The Company recorded the following operating results for Premier for the periods indicated (in thousands):

Fiscal Year Ended
August 31,

	2002	2001	2000
Sales	\$ 5,329	\$ 85,438	\$ 79,985
Pretax income (loss)	(8,877)	11,264	9,737

Under terms of the Company's then-existing credit facilities, we used \$92.3 million of the proceeds from the sale of Premier to pay off and terminate our term loan and revolving credit line (Note 8).

Termination of franklinplanner.com

During the fourth quarter of fiscal 2002, we discontinued the on-line planning services provided at franklinplanner.com. The Company acquired franklinplanner.com during fiscal 2000 and we intended to sell on-line planning as a component of our productivity solution for both organizations and individuals. However, due to competitors that offered on-line planning at no charge and other related factors, the Company was not able to produce a profitable business plan for the operations of franklinplanner.com. Although we were unable to generate revenue from the on-line planning services available at franklinplanner.com, we considered an on-line planning tool an essential component of our overall product offerings and continued to operate franklinplanner.com during fiscal 2001 and fiscal 2002. However, due to operating results recorded during fiscal 2002, and the need to reduce operating expenses, combined with new technology product offerings, franklinplanner.com was terminated during late fiscal 2002.

The operating results of franklinplanner.com were historically included as a component of corporate expenses for segment reporting purposes (Note 21). The Company recorded the following operating results for franklinplanner.com during the periods indicated (in thousands):

Fiscal Year Ended
August 31,

	2002	2001	2000
Sales	\$ none	\$ none	\$ none
Pretax loss	(2,762)	(4,884)	(2,258)

8. DEBT

As required by the terms of our credit agreement that was obtained during fiscal 2001, we used \$92.3 million of the proceeds from the sale of Premier (Note 7) to pay all amounts outstanding on our existing term loan and line of credit agreements. As a result of this prepayment, the existing line of credit agreement was terminated and the Company has not sought to obtain a new credit agreement. Following the payment and termination of these debt instruments, our remaining debt consists primarily of long-term mortgages on our buildings and property.

Lines of Credit

As a result of the payment and termination of our line of credit agreement as described above, we did not have any outstanding line of credit debt at August 31, 2002. At August 31, 2001, we had \$35.6 million outstanding on a \$45.6 million long-term line of credit facility, which is included in the liabilities of continuing operations, and \$9.8 million outstanding on a short-term line of credit through Premier, which is included in the liabilities of discontinued operations in our consolidated balance sheet for August 31, 2001. The weighted average interest rate on the short-term line of credit debt was 5.1 percent at August 31, 2001. The weighted average interest rate on the long-term line of credit facility was 6.4 percent as of August 31, 2001. Commitment fees associated with the lines of credit prior to their termination totaled \$0.1 million during fiscal 2002.

Long-Term Debt

Our long-term debt in continuing operations was comprised of the following items (in thousands):

AUGUST 31,

	2002	2001
Mortgage payable in monthly installments of \$14 CDN, including interest at 5.75% through January 2015, secured by real estate	\$ 855	907
Mortgage payable in monthly installments of \$8 including interest at 9.9% through October 2014, secured by real estate	639	665
Note payable to bank, payable in quarterly installments of \$44, including interest at 10%, through January 2003, secured by software	89	
Note payable to bank, payable in monthly installments of \$23, plus interest at prime plus .5%, payable through September 2002, secured by real estate	23	305
Term note payable to bank, with interest at LIBOR plus 2.5%,		

secured by real estate, inventories, and receivables paid in full during December 2001		56,211
Note payable in annual installments of \$3,000 plus interest at 8%, unsecured and paid in full during December 2001		3,000
Contract and license agreement payable in monthly installments of \$7, paid in full during October 2001		13
	1,606	61,101
Less current portion	(189)	(11,574)
Long-term debt, less current portion	\$ 1,417	\$ 49,527

Future maturities of long-term debt at August 31, 2002 were as follows (in thousands):

YEAR ENDING AUGUST 31,		
2003	\$	189
2004		83
2005		89
2006		96
2007		103
Thereafter		1,046
	\$	1,606

9. LEASE OBLIGATIONS

Capital Leases

During fiscal 2002, we paid in full our remaining capital lease obligations. Our assets that were purchased through capital lease arrangements were comprised primarily of office furniture and equipment and had a total cost basis of \$3.1 million and \$4.0 million, with accumulated amortization of \$2.2 million and \$2.6 million at August 31, 2002 and 2001, respectively. Amortization of capital lease assets was included as a component of depreciation expense in our consolidated statements of operations.

Operating Leases

In the normal course of business, we lease retail store and office space under noncancelable operating lease agreements. The majority of our retail stores lease space in or around shopping centers or malls and other areas that generally have significant consumer traffic. We also rent office space, primarily for regional sales administration offices, in commercial office complexes that are conducive to administrative operations. These operating lease agreements generally contain renewal options that may be exercised at our discretion after completion of the base rental term. In addition, many of the rental agreements provide for regular increases to the base rental rate at specified intervals, which usually occurs on an annual basis. At August 31, 2002, our operating leases have remaining terms that range from one to fourteen years. The following table summarizes our future minimum lease payments under operating leases at August 31, 2002 (in thousands):

YEAR ENDING AUGUST 31,		
2003	\$	16,980
2004		14,915
2005		11,724
2006		8,255
2007		6,378
Thereafter		21,881
	\$	80,133

We recognize lease expense on a straight-line basis over the life of the lease agreement and contingent rent expense as it is incurred. Total rental expense in continuing operations for operating leases was \$18.9 million, \$18.5 million, and \$16.5 million, for the years ended August 31, 2002, 2001, and 2000, respectively. Additionally, certain retail store leases contain terms that require additional, or contingent, rental payments based upon the realization of specified sales thresholds. Our contingent rental payments were insignificant during fiscal 2002 and totaled \$0.4 million and \$0.3 million during fiscal 2001 and fiscal 2000, respectively.

The Company exited certain leased office space in Provo, Utah during fiscal 2000. In connection with leaving the office space, we obtained a noncancelable sublease agreement for the majority of our remaining lease term on the buildings. The sublease agreement for the office space expires in March 2007 and contains renewal provisions that allow the sublessee to extend the sublease agreement, at its option, until March 2013, the date the original lease agreement terminates. As part of our restructuring accrual, the Company has reserved for the difference between our lease payments on the exited buildings and the payments to be received from the sublessee (Note 16). Future minimum lease payments due to the Company from the sublessee as of August 31, 2002 were as follows (in thousands):

YEAR ENDING AUGUST 31,		
2003	\$	1,901
2004		1,958
2005		2,017
2006		2,077
2007		1,232
	\$	9,185

Total sublease payments to the Company were \$2.0 million, \$2.2 million, and \$0.6 million in fiscal 2002, fiscal 2001, and fiscal 2000, respectively. Sublease payments were recorded as reductions to selling, general, and administrative expenses in our consolidated statements of operations.

10. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The book value of our financial instruments approximates fair value. However, the fair values of our financial instruments were based on a variety of factors and assumptions. Accordingly, the fair values may not represent the actual values of the financial instruments that could have been realized as of August 31, 2002 or 2001, or that will be realized in the future and do not include expenses that could be incurred in an actual sale or settlement. The following methods and assumptions were used to determine the fair values of our financial instruments, none of which were held for trading or speculative purposes:

Cash and Cash Equivalents – The carrying amounts of cash and cash equivalents approximate their fair values due to the short maturity of these instruments.

Accounts Receivable – The carrying value of accounts receivable approximate their fair value due to the short-term maturity and expected collection of these instruments.

Other Assets – Our other assets, including the investment in an unconsolidated subsidiary and notes receivable, were recorded at the net realizable value of estimated future cash flows from these instruments.

Debt – The fair values of our debt balances were estimated by using discounted cash flow analyses based upon market rates available to us for similar debt with the same remaining maturities. Debt balances at August 31, 2002 consisted primarily of mortgage debt on various buildings used by the Company. The majority of our debt at August 31, 2001 was comprised of variable-rate debt, which was paid in full during fiscal 2002.

Interest Rate Swap Agreement – The fair value of our interest rate swap agreement outstanding at August 31, 2001 was based upon quoted market prices and fair value information obtained from the third-party bank, which acted as counterparty to the agreement.

Derivative Instruments

During the normal course of business, we are exposed to interest rate and foreign currency exchange risks. To manage risks associated with interest rates and foreign currencies, we have made limited use of derivative financial instruments. Derivatives are financial instruments that derive their value from one or more underlying financial instruments. As a matter of policy, our derivative instruments are entered into for periods consistent with related underlying exposures and do not constitute positions that are independent of those exposures. In addition, we do not enter into derivative contracts for trading or speculative purposes, nor are we party to any leveraged derivative instrument. The notional amounts of derivatives do not represent actual amounts exchanged by the parties to the instrument and, thus, are not a measure of the exposure to the Company through our use of derivatives. The Company enters into derivative agreements with highly rated counterparties and we do not expect to incur any losses resulting from non-performance by other parties.

Interest Rate Risk Management – Generally, under interest rate swaps, the Company agrees with a counterparty to exchange the difference between fixed-rate and floating-rate interest amounts calculated by reference to a contracted notional amount. When appropriate, we designate interest rate swap agreements as hedges of risks associated with specific assets, liabilities, or future commitments, and these contracts are monitored to determine whether the underlying agreements remain effective hedges. The interest rate differential on interest rate swaps is recognized as a component of interest expense or income over the term of the agreement. We do not make extensive use of interest rate swap agreements in the normal course of business.

In connection with our management stock loan program (Note 14), the Company entered into an interest rate swap agreement. As a result of the credit agreement obtained in fiscal 2001, the notes receivable from loan participants, corresponding debt, and interest rate swap agreement were recorded on the Company's consolidated balance sheet at August 31, 2001. Under terms of our then existing credit agreement, we were obligated to use a portion of the proceeds from the sale of Premier to retire all outstanding debt, including the amount related to the management common stock loan program. As a result of this transaction, the underlying obligation of the interest rate swap agreement was transformed from a hedge instrument to a speculative instrument, which we settled during the second quarter of fiscal 2002 for a payment of \$4.9 million in cash. At August 31, 2001, the fair value of this agreement was a \$4.6 million liability (\$2.8 million net of tax), which was recorded as a component of other long-term liabilities and accumulated comprehensive loss in our consolidated balance sheet for fiscal 2001. The interest rate differential totaled \$0.6 million during fiscal 2002 prior to settlement and totaled \$0.1 million during fiscal 2001. The Company had no interest rate swap agreements or similar derivative contracts in place at August 31, 2002.

Foreign Currency Exposure – The Company has international operations and during the normal course of business we are exposed to foreign currency exchange risks as a result of transactions that are denominated in currencies other than the United States dollar. During fiscal 2002, we utilized foreign currency forward contracts to manage the volatility of certain intercompany financing transactions that are denominated in foreign currencies. Our foreign exchange contracts did not meet specific hedge accounting requirements and corresponding gains and losses were recorded as a component of current operations, which offset the gains and losses on the underlying transactions, in the accompanying consolidated statements of operations. As a result of our use of foreign currency exchange contracts, we recorded net losses totaling \$0.3 million during fiscal 2002, net gains totaling \$0.2 million during fiscal 2001, and net losses totaling \$0.2 million during fiscal 2000. All of our foreign currency exchange contracts were settled prior to August 31, 2002. However, the Company intends to continue utilizing foreign currency exchange contracts in future periods to offset potential foreign currency exchange risks.

11. COMMITMENTS AND CONTINGENCIES

EDS Contract

During fiscal 2001, we entered into long-term outsourcing agreements with Electronic Data Systems ("EDS") to provide warehousing, distribution, information systems, and call center operations. Under terms of the outsourcing contracts and their amendments, EDS operates our primary call center, provides warehousing and distribution services, and supports the Company's information systems. The outsourcing agreements expire at various dates through 2017 and have required minimum payments totaling approximately \$361.4 million, which are payable over the lives of the agreements. During fiscal 2002, we paid \$33.6 million to EDS for services provided under terms of the outsourcing agreements. The following schedule summarizes our required minimum payments to EDS for outsourcing services over the lives of the agreements (in thousands):

YEAR ENDING AUGUST 31,	
2003	\$ 31,298
2004	31,431
2005	31,428
2006	30,246
2007	28,919
Thereafter	208,031
	<hr/>
	\$ 361,353

Beginning in fiscal 2003, the warehouse, distribution, and call center components of the contract will, to the extent volumes exceed contractual minimums, be a variable charge, which will be based upon the number of actual transactions processed, such as boxes shipped and agent hours. Total payments to EDS may differ materially from required minimum payments if actual activity increases over the term of the agreements. The outsourcing contract also contains early termination provisions that we may exercise under certain conditions. However, in order to exercise the early termination provisions, the Company would have to pay specified penalties to EDS depending upon the circumstances of the contract termination.

Purchase Commitments

The Company has various purchase commitments for materials, supplies, and other items incident to the ordinary conduct of business. Individually and in aggregate, these commitments are immaterial to the Company's operations.

Legal Matters

As part of the sale of Premier Agendas (Note 7), the Company retained certain outstanding legal claims against Premier. Subsequent to August 31, 2002 we settled these outstanding claims for approximately \$0.8 million, which increased the recorded gain from the sale of Premier as we had accrued \$3.5 million for the potential liability related to these claims.

During fiscal 2002, the Company received a subpoena from the Securities and Exchange Commission ("SEC") seeking documents and information relating to our management stock loan program and previously announced, and withdrawn, tender offer. We have provided the documents and information requested by the SEC, including the testimony of our Chief Executive Officer and other key employees. The Company has cooperated, and will continue to cooperate, fully in providing requested information to the SEC. The SEC has stated that the formal inquiry is not an indication that the SEC has concluded that there has been a violation of any law or regulation. The Company believes that we have complied with the laws and regulations applicable to our management stock loan program and withdrawn tender offer.

Acquisition Earnout Payments

In connection with the acquisitions of Premier Agendas and our Personal Coaching Division in fiscal 1997, we were required to pay contingent earnout payments during fiscal 2001 and fiscal 2000 to the prior owners of these entities. The contingent earnout payments were based upon the achievement of specified earnings targets during the measurement period defined in the respective acquisition agreements. These contingent earnout payments were recorded as additions to the original purchase price after considering factors found in Emerging Issues Task Force ("EITF") Issue No. 95-8, "Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination." We considered factors involving terms of continuing employment of key personnel, since the earnout payments were not automatically forfeited upon termination of key management, factors involving reasons for contingent payment provisions, such as the relative value of the original purchase price to the value of the acquired entity, and factors regarding the formula for determining the contingent payment. Based upon these factors, the contingent earnout payments were recorded as additions to the original purchase price rather than compensation expense. The Company paid the following contingent earnout payments during the periods indicated (in thousands):

Fiscal Year Ended August 31,	2001	2000
Personal Coaching	\$ 1,903	\$ 5,200
Premier Agendas		10,853
Total contingent earnout payments	\$ 1,903	\$ 16,053

Contingent earnout payments were recorded as goodwill when paid and were being amortized over the remaining life of the original purchased goodwill prior to the adoption of SFAS No. 142. At August 31, 2002, the Company had no non-compensatory contingent earnout liabilities.

12. RELATED PARTY TRANSACTIONS

For fiscal 2002, our Chief Executive Officer ("CEO") decided to forgo his salary, which totaled \$0.5 million. In accordance with SEC reporting rules, we recorded compensation expense for the unpaid salary and recorded a corresponding increase to additional paid-in capital.

The Company pays both Vice-Chairmen of the Board of Directors a percentage of the proceeds received for seminars that are presented by them. During the fiscal years ended August 31, 2002, 2001, and 2000, we paid \$1.9 million, \$3.5 million, and \$3.3 million, respectively, to the Vice-Chairmen for these seminar presentations.

The Company, under a long-term agreement, leases buildings from a partnership that is partially owned by a Vice-Chairman of the Board of Directors and certain officers of the Company. We paid rental expense to the partnership totaling \$2.1 million for each of the fiscal years ended August 31, 2002, 2001, and 2000. These buildings are currently being subleased to a third party. For more information regarding these subleases, refer to Note 9.

As part of a preferred stock offering to a private investor, an affiliate of the investor, who was then a director of the Company, was named Chairman of the Board of Directors and CEO. In addition, two affiliates of the investor were appointed to the Board of Directors. In connection with the preferred stock offering, we pay an affiliate of the investor \$400,000 each year for monitoring fees.

During fiscal 2002, the Company entered into a sabbatical and severance agreement with one of our officers who was also a member of our Board of Directors. The agreement provides for payments totaling \$0.9 million through November 2004. The compensation cost of this agreement was expensed in current operations during the year ended August 31, 2002, as the Company will receive no benefit or future services for the payments.

During fiscal 2002, we entered into a consulting agreement with a member of our Board of Directors to assist the Company with various projects and transactions, such as the sale of Premier and new product offerings. Under terms of the consulting agreement, we paid \$0.2 million for services provided to the Company in fiscal 2002. The consulting agreement expires in December 2003.

The Company has licensed certain intellectual property to a company in which a Vice-Chairman of the Board of Directors is a principal shareholder. No license payments were required to be paid to the Company during fiscal 2002.

Premier, a subsidiary of the Company that was sold during fiscal 2002, had trade accounts payable to various companies that were partially owned by certain former owners of Premier totaling \$0.5 million at August 31, 2001. In addition, Premier had notes payable to key employees and former key employees totaling \$1.5 million as of August 31, 2001 (Note 7). The notes payable were used for working capital, were due upon demand, and had interest rates that approximated prevailing market rates. These payable amounts were included as a component of liabilities of discontinued operations in the accompanying August 31, 2001 consolidated balance sheet.

During the fiscal year ended August 31, 2000, the Company sold 121,250 shares of its common stock to a former CEO of the Company for \$0.9 million. In consideration for the common stock, the Company received a non-recourse promissory note, due September 2003, bearing interest at 10.0 percent. Additionally, all of the former CEO's stock options were canceled and the issuance of common stock is being accounted for using the variable method, due to its stock option characteristics. The note receivable from the sale of this stock has been recorded as a component of notes and interest receivable related to financing common stock purchases by related parties, which is a reduction to shareholders' equity in our consolidated balance sheets.

During fiscal 2000, we actively sought to reacquire outstanding options to purchase shares of our common stock. Included in the total number of option shares reacquired, the Company purchased options for 150,000 shares of common stock from a Vice-Chairman of the Board of Directors for \$0.4 million. In addition, 358,000 option shares were purchased from two officers and one former officer of the Company for a total of \$0.8 million. These reacquired options were valued using the Black-Scholes option-pricing model, which was the same valuation methodology used by the Company to purchase other stock options during fiscal 2000 (Note 13).

During the fiscal year ended August 31, 2000, we purchased 9,000 shares of our common stock for \$0.1 million in cash, from a Vice-Chairman of the Board of Directors. All shares were purchased at the existing fair market value on the dates of the transactions.

13. CAPITAL TRANSACTIONS

Preferred Stock

Series A. As of August 31, 2002, we had issued 873,460 shares of our Series A preferred stock. Series A preferred stock dividends accrue at an annual rate of 10.0 percent and were payable quarterly in cash or additional shares of Series A preferred stock, at the Company's option, until July 1, 2002 as allowed by the Series A preferred stock agreement. Subsequent to that date, all future Series A preferred stock dividends must be paid in cash. During fiscal 2002 and 2001, the Company issued 42,088 shares and 20,277 shares, respectively, of Series A preferred stock to existing preferred stock shareholders as payment for accrued Series A preferred dividends. All other Series A preferred dividend payments made during fiscal 2002 and 2001 were paid with cash. At August 31, 2002 and 2001, we had accrued \$2.2 million and \$2.1 million of Series A preferred dividends, which were included as a component of other accrued liabilities in our consolidated balance sheets. Our Series A preferred stock is convertible at any time into the Company's common stock at a conversion price of \$14.00 per share and ranks senior to our common stock. Series A preferred stock shareholders generally have the same voting rights as common stock holders on an "as-converted" basis.

Series B. During fiscal 2002, our Board of Directors authorized 400,000 shares of Series B preferred stock. Series B preferred stock ranks junior to Series A preferred stock and ranks equivalent to common stock as to liquidation rights. Series B preferred stock has no voting rights, no preemptive or redemption rights, and has no dividend rights. Each share of Series B preferred stock may be converted into ten shares of our common stock subsequent to March 1, 2005. At August 31, 2002, no shares of Series B preferred stock have been issued.

Treasury Stock

We sold 151,388, 164,496, and 153,614 shares of our common stock held in treasury as a result of the exercise of incentive stock options and the issuance of shares under the Company's employee stock purchase plan for the fiscal years ended August 31, 2002, 2001, and 2000, respectively. These shares were sold for an aggregate total of \$0.5 million, \$1.0 million, and \$1.0 million, and had a cost of approximately \$1.9 million, \$2.7 million, and \$2.9 million, for the fiscal years ended August 31, 2002, 2001, and 2000, respectively. During fiscal 2000, we sold 650,000 shares of treasury stock for use in our management stock loan program (Note 14) for \$5.1 million, which was our cost basis. Additionally during fiscal 2000, the Company sold 121,250 shares of our common stock held in treasury to a former CEO of the Company for \$0.9 million. In consideration for the common stock, the Company received a non-recourse promissory note, due September 2003 (Note 12).

Through August 31, 2000, our Board of Directors had approved various plans for the purchase of up to 8,000,000 shares of the Company's common stock. Through November 25, 2000, we had purchased 7,705,000 shares of our common stock under these board-authorized plans. On December 1, 2000, our Board of Directors approved an additional plan to purchase up to \$8.0 million of the Company's common stock. Through August 31, 2001, we purchased 888,000 shares for \$7.1 million under the terms of this plan. In connection with these Board authorized purchase plans, the Company purchased an aggregate 900,000 shares for \$7.2 million, and 688,000 shares for \$5.5 million, during the fiscal years ended August 31, 2001 and 2000, respectively. No shares of our common stock were purchased during fiscal 2002 in connection with any Board authorized purchase plan. However, during fiscal 2002 and 2001, we purchased 25,000 shares and 41,000 shares of our common stock with a corresponding cost of \$0.1 million and \$0.3 million, respectively, for exclusive distribution to participants enrolled in our employee stock purchase plan.

Tax Benefit from Exercise of Affiliate Stock Options

During the fiscal years ended August 31, 2001 and 2000, certain employees exercised affiliate stock options (nonqualified stock options received from principal shareholders of the Company), which resulted in tax benefits to the Company of \$25,000 and \$0.6 million, respectively, which were recorded as increases to additional paid-in capital. There were no affiliate stock options exercised during fiscal 2002.

Stock Options

The Company's Board of Directors has approved an incentive stock option plan whereby options to purchase shares of common stock are issued to key employees at an exercise price not less than the fair market value of our common stock at the date of grant. The term, not to exceed ten years, and exercise period of each incentive stock option awarded under the plan are determined by a committee appointed by our Board of Directors. At August 31, 2002, we had approximately 855,000 shares available for grant under the current incentive stock option plan.

A summary of nonqualified and incentive stock option activity is set forth below:

	Number of Options	Weighted Avg. Exercise Price
Outstanding at August 31, 1999	5,284,165	\$ 19.10
Granted	354,685	7.59
Exercised	(22,334)	4.38
Repurchased	(3,294,476)	22.54
Forfeited	(574,033)	15.69
Outstanding at August 31, 2000	1,748,007	11.59
Granted:		
At market value	203,000	7.44
To the CEO	1,602,000	14.00
Exercised	(19,861)	5.97
Forfeited	(93,117)	9.31
Outstanding at August 31, 2001	3,440,029	12.56
Granted	101,000	4.93
Forfeited	(496,748)	10.58
Outstanding at August 31, 2002	3,044,281	\$ 12.63

During fiscal 2001, the Company's shareholders ratified a Board approved employment agreement for our Chief Executive Officer ("CEO"). In connection with the employment agreement, the CEO was granted 1.6 million options to purchase shares of our common stock. The options will be fully exercisable on August 31, 2007, and will be exercisable prior to August 31, 2007 only upon the achievement of specified common stock prices ranging from \$20.00 per share to \$50.00 per share. The options can only be exercised while the executive is employed as our CEO or Chairman of the Board of Directors.

The following table summarizes exercisable option information for the periods indicated:

August 31,	2002	2001	2000
Exercisable options	1,019,457	1,039,672	757,656

Weighted average exercise price per share	\$ 12.48	\$ 13.27	\$ 14.83
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In an effort to reduce the potentially dilutive effect of outstanding options on our capital structure, we actively sought to reacquire outstanding stock options from both current and former employees during fiscal 2000. The majority of option purchase costs were incurred in connection with a tender offer made by the Company during the third quarter of fiscal 2000 to purchase all outstanding options with an exercise price of \$12.25 or higher. The tender offer expired on May 3, 2000 with a total of 2,319,000 options tendered. Under terms of the offer, we paid cash for the outstanding options, which were priced using a market valuation methodology. The total cost of the tender offer was \$6.9 million. As a result of the tender offer and previously purchased option shares, we purchased 3,294,476 option shares for a total cost of \$8.7 million in cash.

We apply the intrinsic method of accounting for stock options and other stock-based compensation plans. Accordingly, no compensation expense has been recognized for our stock option plans or employee stock purchase plan in our consolidated statements of operations. Had compensation cost for our stock option plans and employee stock purchase plan been determined in accordance with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," our net loss and corresponding loss per share would have been the pro forma amounts indicated below (in thousands, except per share data):

Fiscal Year Ended
August 31,

	2002	2001	2000
Net loss attributable to common shareholders as reported	\$(109,266)	\$(19,236)	\$(12,414)
Net loss attributable to common shareholders pro forma	(110,308)	(21,302)	(11,404)
Diluted loss per share as reported	(5.49)	(.95)	(.61)
Diluted loss per share pro forma	(5.89)	(1.10)	(.57)

The following information applies to our stock options outstanding at August 31, 2002:

- A total of 1,107,201 options outstanding have exercise prices between \$2.78 and \$11.83 per share, with a weighted average exercise price of \$7.38 per share and a weighted average remaining contractual life of 6.7 years. At August 31, 2002, 700,627 of these options were exercisable.
- The 1,602,000 outstanding options granted to our CEO in connection with a Board and shareholder approved employment agreement have an exercise price of \$14.00 per share, with a weighted average remaining contractual life of 8.0 years. At August 31, 2002, none of these options were exercisable.
- The remaining 335,080 options outstanding have exercise prices between \$14.69 and \$34.50 per share, with a weighted average exercise price of \$22.30 per share and a weighted average remaining contractual life of 3.5 years. At August 31, 2002, 318,830 of these options were exercisable.

The weighted average fair value of options granted under our stock option plans during the fiscal year ended August 31, 2002 was \$2.04 per share. During fiscal 2001, the weighted average fair value was \$3.07 per share for options granted at the market price and \$3.05 per share for options granted to the CEO. The weighted average fair value of options granted during fiscal 2000 was \$3.03 per share.

The Black-Scholes option-pricing model was used to calculate the weighted average fair value of options granted using the following assumptions for grants in fiscal years 2002, 2001, and 2000:

Fiscal Year Ended
August 31,

	2002	2001	2000
Dividend yield	None	None	None
Volatility	59.4%	55.3%	55.3%
Expected life (years)	2.8	6.9	4.4
Risk free rate of return	4.9%	5.7%	5.3%

The estimated fair value of options granted is subject to the assumptions made and if the assumptions were to change, the estimated fair value amounts could be significantly different. The weighted average fair value of stock options exercised during fiscal years 2001 and 2000 was \$8.58 per share and \$8.40 per share, respectively. No stock options were exercised during fiscal 2002.

14. MANAGEMENT COMMON STOCK LOAN PROGRAM

The Company is the creditor for a loan program that provided certain management personnel with the opportunity to purchase shares of our common stock by borrowing on a full-recourse basis from external lenders. The loan program closed during fiscal 2001 with 3,825,000 shares purchased for a total cost of \$33.6 million, with the loans guaranteed by the Company. Although interest accrues against the participants over the life of the loans, no interest payments are due from participants until the loans mature in March 2005. As part of the credit agreement obtained in fiscal 2001 (Note 8), we acquired from the external lenders the notes receivable from the loan participants and recorded them as a reduction to shareholders' equity. As a result, the Company is now the creditor on these full-recourse notes from the participants of the loan program.

The Company utilizes a systematic methodology for determining the level of reserves that are appropriate for the management common stock loan program. A key factor considered by our methodology is the current market value of common stock held by the participants. Other factors considered by the methodology include: the liquid net worth of the participants; the risks of pursuing collection actions against key employees; the probability of sufficient participant repayment capability based upon proximity to the due date of the loans; and other business, economic, and participant factors which may have an impact on our ability to collect the loans. Additionally, the Company may not hold the participants' shares of stock as collateral due to certain laws and regulations.

Based upon our reserve methodology, we recorded increases to the loan loss reserve totaling \$24.8 million during fiscal 2002. As of August 31, 2002 and 2001, the Company had aggregate loan loss reserves totaling \$25.9 million and \$1.1 million, respectively, which reduce notes and interest receivable from financing common stock purchases by related parties in our consolidated balance sheets. In addition, we ceased recording interest receivable and corresponding interest income on all participant loans during the quarter ended May 25, 2002. However, the loan participants remain liable for interest accrued over the full term of their loans, which is due when the loans mature in March 2005. At August 31, 2002, the participants' loans plus recorded accrued interest exceeded the value of the common stock held by the participants by \$29.2 million. Should the value of the common stock continue to be insufficient to cover the loans outstanding during the loan term, our loan loss reserve methodology provides a basis to be fully reserved prior to the March 2005 loan maturity date. However, the inability of some or all participants to repay their loans would have a significant adverse impact upon the financial position and future cash flows of the Company.

The establishment of reserves for potential loan losses requires significant estimates and judgment by the Company's management, and these estimates and projections are subject to change as a result of various economic factors, most of which are not within our control. As a result, the reserve for management stock loan losses could fluctuate significantly in future periods.

15. LOSS ON IMPAIRED ASSETS

We regularly review our long-lived assets for circumstances or events that indicate an asset may not be realizable. Our losses on impaired assets consisted of the following for the periods indicated (in thousands):

Fiscal Year Ended
August 31,

	2002	2001	2000
Covey trade name	\$ 4,000		
Note receivable from sale of subsidiary	2,282		
Capitalized software development costs	1,758	\$ 801	\$ 1,940
Computer software	1,097		
Retail store assets	1,001		
Other	47		
	\$ 10,185	\$ 801	\$ 1,940

As discussed in Note 4, we reassessed the carrying value of the Covey trade name, an indefinite-lived intangible asset, under the provisions of SFAS No. 142. Due to declining sales and estimated future sales associated with the Covey trade name, we recorded a \$4.0 million impairment charge during the fourth quarter of fiscal 2002. The value of the Covey trade name will continue to be evaluated in future periods and may require further impairment charges.

The note receivable from the sale of a subsidiary became impaired when the purchaser declared bankruptcy during the second quarter of fiscal 2002. The note receivable was guaranteed by the parent company of the purchaser, however, the parent company also became insolvent during fiscal 2002 and the possibility of recovery on the note receivable appears remote.

We regularly review our property and equipment and capitalized computer software costs for impairment whenever circumstances indicate that the carrying amount of the asset may not be realizable. Based upon unfavorable sales trends and projected sales information, we recorded total impairment charges of \$1.8 million for capitalized development costs related to software products that produced less-than-expected sales volume. During fiscal 2001 and 2000, we recorded \$0.8 million and \$1.9 million, respectively, of impairment charges for capitalized software development costs that were affected by similarly unfavorable sales trends and estimated sales projections. We also recorded a \$1.1 million impairment charge related to a customer database management software application, which was developed and installed by an external company, and became obsolete when we selected a new database software provider.

As a result of projected negative cash flows at certain of our retail stores, we recorded impairment charges totaling \$1.0 million to reduce the book values of the long-lived assets of these stores to their estimated net realizable value at August 31, 2002.

16. RESTRUCTURING COSTS

During the fourth quarter of fiscal 1999, our Board of Directors approved a plan to restructure the Company's operations, reduce our workforce, and formally exit the majority of our leased office space located in Provo, Utah. In connection with this restructuring plan, we recorded a restructuring charge totaling \$16.3 million. Included in the restructuring charge were costs to provide severance and related benefits, as well as costs to formally exit the leased office space. This restructuring plan was substantially completed during fiscal 2000. The components of the remaining restructuring accrual, which is included in other accrued liabilities, are as follows (in thousands):

	Severance Costs	Leased Office Space Exit Costs	Total
Accrued restructuring costs at August 31, 2001	\$ 301	\$ 2,211	\$ 2,512
Restructuring costs paid	(275)	(308)	(583)
Accrued restructuring costs at August 31, 2002	\$ 26	\$ 1,903	\$ 1,929

At August 31, 2002, accrued severance costs consisted of expected remaining severance and benefit payments for terminated employees. Remaining accrued leased office space exit costs represent the difference between base rental charges and the offsetting expected sublease revenue receipts. The Company expects that the remaining restructuring accrual will be sufficient to complete our restructuring plan.

The severance cost accrual was established based upon estimates of factors such as expected time to find other employment, expected benefit payments, and severance payment type. However, primarily due to favorable economic conditions that decreased the average time necessary for terminated employees to find new employment, we reassessed our potential liability for remaining severance costs. Accordingly, the Company reduced the severance accrual during fiscal 2000 by \$4.9 million to reflect the estimated remaining liability.

17. EMPLOYEE BENEFIT PLANS

Profit Sharing Plans

We have defined contribution profit sharing plans for our employees that qualify under Section 401(k) of the Internal Revenue Code. These plans provide retirement benefits for employees meeting minimum age and service requirements. Qualified participants may contribute up to 15 percent of their gross wages, subject to certain limitations. These plans also provide for matching contributions by the Company. The matching contributions from continuing operations that were expensed during the years ended August 31, 2002, 2001, and 2000, were \$1.2 million, \$1.5 million, and \$1.7 million, respectively.

Employee Stock Purchase Plan

The Company has an employee stock purchase plan that offers qualified employees the opportunity to purchase shares of our common stock at a price equal to 85 percent of the fair market value of the common stock at the time of purchase. A total of 151,388, 144,035, and 142,327, shares were issued under this plan for the fiscal years ended August 31, 2002, 2001, and 2000, respectively. Shares available for issuance under this plan at August 31, 2002 were 579,015. The Company accounts for its employee stock purchase plan using the intrinsic method as defined in the provisions of APB Opinion 25 and related interpretations.

Deferred Compensation Plan

During fiscal 2000, we established a deferred compensation plan that provides certain key officers and employees the ability to defer a portion of their compensation until a later date. The Company incurred and expensed charges totaling \$0.2 million, \$0.2 million, and \$0.1 million during the fiscal years ended August 31, 2002, 2001, and 2000, respectively, related to our deferred compensation plan. Deferred compensation amounts used to pay benefits are held in a "rabbi trust", which invests in various mutual funds and/or our common stock as directed by the plan participants. The trust assets are recorded in our consolidated balance sheets because such amounts are subject to the claims of the Company's creditors. The corresponding deferred compensation liability represents the amounts deferred by participants plus any earnings or minus any losses on the trust assets. The plan's assets totaled approximately \$1.4 million and \$3.1 million at August 31, 2002 and 2001, while plan liabilities totaled approximately \$1.9 million and \$3.1 million for the corresponding periods. The difference between plan assets and liabilities at August 31, 2002 was primarily due to disbursements of plan assets to participants that left the Company. The Company has paid these former participants and has recorded a \$0.7 million receivable from the plan for these distributions. The assets and liabilities of the deferred compensation plan, including our receivable from the plan, were recorded as components of other long-term assets and other long-term liabilities, as appropriate, in the accompanying consolidated balance sheets.

18. INCOME TAXES

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

Fiscal Year Ended August 31,

	2002	2001	2000
Current:			
Federal	\$ 21,982	\$ 5,531	\$ (4,080)
State	2,434	533	(1,165)
Foreign	(1,027)	(1,545)	(1,655)
	23,389	4,519	(6,900)
Deferred:			
Federal	23,714	(421)	1,075
State	3,237	(98)	279
Valuation allowance	(24,627)		
	2,324	(519)	1,354
	\$ 25,713	\$ 4,000	\$ (5,546)

Allocation of the total tax benefit (provision) is as follows (in thousands):

Fiscal Year Ended August 31,

	2002	2001	2000
Continuing operations	\$ 25,713	\$ 4,000	\$ (5,546)
Discontinued operations	4,055	(4,267)	(4,416)
Gain on sale of discontinued operations	(35,094)		
Cumulative effect of change in accounting principle	13,948		

\$ 8,622 \$ (267) \$ (9,962)

Comprehensive loss items:
Tax effect from valuation of an interest rate swap agreement

\$ (1,827) \$ 1,827

Income (loss) from continuing operations before the benefit or provision for income taxes consisted of the following (in thousands):

Fiscal Year Ended August 31,

	2002	2001	2000
United States	\$ (124,191)	\$ (20,132)	\$ (1,492)
Foreign	2,012	2,936	(434)
	\$ (122,179)	\$ (17,196)	\$ (1,926)

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

Fiscal Year Ended August 31,

	2002	2001	2000
Federal statutory tax rate	35.0%	35.0%	(35.0)%
State income taxes, net of federal effect	3.0	1.6	29.9
Deferred tax valuation allowance	(18.2)		
Intangible asset amortization	(0.5)	(7.0)	111.6
Effect of foreign losses and tax rate differential	0.1	(1.2)	128.8
Other	1.6	(5.1)	52.6
	21.0%	23.3%	287.9%

Based upon the weight of available evidence, and the nature and duration of various deferred tax assets, we determined that it is more likely than not that the related benefits from deferred tax deductions and foreign tax carryforwards will not be realized. Accordingly, we recorded the appropriate valuation allowances on our deferred tax assets during fiscal 2002.

Intangible asset amortization consists of non-deductible amortization related to content and goodwill generated by the fiscal 1997 merger with Covey Leadership Center and certain other acquisitions.

During the fiscal year ended August 31, 2000, the effect of foreign losses is primarily comprised of losses sustained in Japan, Australia, and New Zealand for which no offsetting tax benefit could be recognized due to uncertainties related to future taxable income to offset such losses.

Other items include various non-deductible expenses, including certain meals, entertainment, and disallowed compensation expenses, that occur in the normal course of business, but which had a magnified effect on the tax rate due to decreased taxable income in fiscal 2001 and fiscal 2000.

Significant components of our deferred tax assets and liabilities of continuing operations were comprised of the following (in thousands):

August 31,

	2002	2001
Deferred income tax assets:		
Loan loss reserve on management stock loans	\$ 10,605	\$ 419
Intangible asset amortization and impairment	6,483	
Impairment of investment in Franklin Covey Coaching	5,382	
Property and equipment depreciation	3,354	
Inventory and bad debt reserves	3,115	4,098
Foreign tax credit carryforward	2,450	
Sales returns and contingencies	1,588	2,676
Restructuring and severance cost accruals	1,411	975
Vacation and other accruals	829	1,498
Deferred compensation	722	1,340
Interest and inventory capitalization	485	463
Reserves related to discontinued operations	382	
Other	451	864
Total deferred income tax assets	37,257	12,333
Less: valuation allowance	(25,009)	
Net deferred income tax assets	12,248	12,333
Deferred income tax liabilities:		
Intangibles and property and equipment step-ups	(12,171)	(24,083)
Depreciation and amortization		(2,104)
Other	(77)	(3,193)
Total deferred income tax liabilities	(12,248)	(29,380)
Net deferred income tax liabilities	\$ -	\$ (17,047)

The foreign tax credit carryforward generated during fiscal 2002, which totals \$2.5 million, expires on August 31, 2007.

19. NET LOSS PER COMMON SHARE

Basic earnings (loss) per share ("EPS") is calculated by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS is calculated by dividing net loss by the weighted average number of common shares outstanding, plus the assumed exercise of all dilutive securities using the treasury stock or "as converted" method, as appropriate. During periods of net loss from continuing operations, all dilutive securities, including the effect of common shares from the issuance of preferred stock on an "as converted" basis, are excluded from the diluted EPS calculation. Significant components of the numerator and denominator used for basic and diluted EPS were as follows for the periods indicated (in thousands, except share and per share amounts):

Fiscal Year Ended August 31,

	2002	2001	2000
Loss from continuing operations	\$(96,466)	\$(13,196)	\$ (7,472)
Preferred stock dividends	(8,681)	(8,153)	(8,005)
Loss from continuing operations and preferred stock dividends	(105,147)	(21,349)	(15,477)
Income (loss) from discontinued operations, net of tax	(7,584)	2,113	3,063
Gain on sale of discontinued operations, net of tax	64,851		
Loss before cumulative effect of accounting change	(47,880)	(19,236)	(12,414)
Cumulative effect of accounting change, net of tax	(61,386)		
Net loss attributable to common shareholders	\$(109,266)	\$(19,236)	\$(12,414)
Loss from continuing operations and preferred stock dividends per share:			
Basic and Diluted	\$ (5.29)	\$ (1.06)	\$ (.76)
Income (loss) from discontinued operations, net of tax, per share:			
Basic and Diluted	(.38)	.11	.15
Gain from sale of discontinued operations, net of tax, per share:			
Basic and Diluted	3.26		
Loss before cumulative effect of accounting change, net of tax, per share:			
Basic and Diluted	(2.41)	(.95)	(.61)
Cumulative effect of accounting change, net of tax, per share:			
Basic and Diluted	(3.08)		
Net loss attributable to common shareholders per share:			
Basic and Diluted	\$ (5.49)	\$ (.95)	\$ (.61)
Basic and diluted weighted-average shares outstanding	19,895	20,199	20,437

Due to their antidilutive effect, the following incremental shares from the effect of the preferred stock on an "as converted basis" and options to purchase common stock have been excluded from the diluted EPS calculation:

Fiscal Year Ended August 31,

	2002	2001	2000
Number of preferred shares on an "as converted" basis	6,238,957	5,829,689	5,793,529
Common stock equivalents from the assumed exercise of stock options		55,692	82,144
Total antidilutive shares excluded from the EPS calculation	6,238,957	5,885,381	5,875,673

20. STATEMENTS OF CASH FLOWS

The following supplemental disclosures are provided for the consolidated statements of cash flows (in thousands):

Fiscal Year Ended August 31,

	2002	2001	2000
Cash paid (received) for:			
Income taxes	\$ (4,599)	\$ 1,140	\$ (250)
Interest	3,901	5,927	7,353
Fair value of assets acquired	\$ -	\$ 4,432	\$ 21,444
Cash paid for net assets	-	(4,432)	(21,444)
Liabilities assumed from acquisitions	\$ -	\$ -	\$ -

Tax effect of exercise of affiliate stock options	\$ -	\$ 25	\$ 557
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Non-Cash Investing and Financing Activities

As of August 31, 2002, 2001, and 2000, we had accrued preferred dividends totaling \$2.2 million, \$2.1 million, and \$2.0 million, respectively. Prior to July 1, 2002, the Company had the option to pay accrued dividends with cash or additional shares of preferred stock. As required by the Series A Preferred Stock agreement, subsequent to July 1, 2002, all accrued preferred dividends must be paid with cash. Payments for preferred stock dividends were as follows for the periods indicated (in thousands):

Fiscal Year Ended August 31,

	2002	2001	2000
Preferred stock dividends paid with cash	\$ 4,367	\$ 6,084	\$ 5,977
Preferred stock dividends paid with additional shares of preferred stock	4,208	2,028	1,875
Total preferred stock dividends paid	\$ 8,575	\$ 8,112	\$ 7,852

In connection with the credit agreement obtained during fiscal 2001 (Note 8), the Company acquired \$33.6 million of notes receivable from the participants in the management common stock loan program, which loans were previously guaranteed by the Company. The corresponding liability was recorded as a component of long-term debt in our consolidated balance sheet for the fiscal year ended August 31, 2001. In addition, the Company established a reserve against the notes receivable and related interest receivable from the participants of the loan program and incurred charges to increase the reserve totaling \$24.8 million and \$1.1 million for the years ended August 31, 2002 and 2001, respectively.

On September 1, 2000, we contributed substantially all of the assets of our Personal Coaching division to Franklin Covey Coaching, LLC (Note 5), a joint venture formed to provide coaching services. The carrying value of the assets contributed to form Franklin Covey Coaching, LLC was \$18.2 million, net of \$0.3 million of cash contributed to the joint venture.

In connection with the acquisition of DayTracker.com (renamed franklinplanner.com) in December 1999 (Note 22), we issued \$6.0 million of notes payable. The notes payable were due and payable in annual installments through December 2001.

During fiscal 2000, we sold 121,250 shares of our common stock to a former CEO of the Company in consideration for a \$0.9 million non-recourse promissory note.

At August 31, 2000, we had accrued \$0.7 million for earnout payments in connection with the acquisition of certain entities.

21. SEGMENT INFORMATION

Reportable Segments

Due to the sale of Premier during fiscal 2002, we now have two reporting segments: the Consumer Strategic Business Unit ("CSBU") and the Organizational Strategic Business Unit ("OSBU"). The operating results of Premier and our other products and services designed for teachers and students were previously reported in the Education Business Unit, which was dissolved in the second quarter of fiscal 2002. Our remaining teacher and student programs and products are now classified in OSBU results of operations.

Consumer Strategic Business Unit – This business unit is focused on sales to individual customers and includes the operating results of our 173 domestic retail stores, 10 international stores, catalog and e-Commerce operations, and other related channels, including wholesale sales and manufacturing operations. Although CSBU sales primarily consist of products such as planners, binders, and handheld electronic planning devices, virtually any component of our leadership and productivity solutions can be purchased through CSBU channels.

Organizational Strategic Business Unit – The OSBU is primarily responsible for the development, marketing, sale, and delivery of productivity, leadership, sales performance, and communication training solutions directly to organizational clients, including other companies, the government, and educational institutions. The organizational business unit includes the financial results of the Organizational Solutions Group ("OSG") and our international operations, except for retail stores. The organizational sales group is responsible for the domestic sale and delivery of productivity, leadership, sales performance, and communication training solutions to corporations and includes sales of training seminars to teachers and students, which were previously reported with the operating results of Premier. The organizational sales group is also responsible for the sale of productivity solutions to wholesale customers and for consulting services that compliment our productivity and leadership training solutions. Our international operations are responsible for sales of training seminars and products outside the United States, including international catalog sales.

Our chief operating decision maker is the CEO. Each of the reportable segments has a president and chief operating officer who report directly to the CEO. The primary measurement tools we use in segment performance analysis are earnings before interest, taxes, depreciation, and amortization ("EBITDA") and free cash flows, which may not be calculated as similarly titled amounts presented by other companies. Our consolidated EBITDA can be calculated as gross margin less selling, general, and administrative expenses, stock option purchase and relocation costs, provision for losses on management stock loans, impairment of investment in unconsolidated subsidiary, loss on impaired assets, plus the reversal of restructuring costs in fiscal 2000 and the equity in earnings of an unconsolidated subsidiary.

The Company accounts for its segment information on the same basis as the accompanying consolidated financial statements. Prior year information has been revised in order to conform to fiscal 2002 classifications.

SEGMENT INFORMATION (in thousands)

Year Ended August 31, 2002	Consumer Strategic Business Unit			Organizational Strategic Business Unit			Corporate, Adjustments and Eliminations	Consolidated
	Retail	Catalog/ e-Commerce	Other CSBU	OSG	International	Education		
Sales to external customers	\$ 122,496	\$ 63,291	\$ 4,921	\$ 97,519	\$ 44,771			\$ 332,998
Gross margin	62,207	35,620	(2,862)	61,986	26,678			183,629
EBITDA	1,288	6,480	(21,500)	(20,829)	6,499		\$(52,186)	(80,248)
Significant non-cash items:								
Provision for losses on management loan program							24,775	24,775
Impairment of investment in unconsolidated subsidiary				16,323				16,323
Loss on impaired assets	1,001	1,425	3,093	4,619	47			10,185
Depreciation	10,180	3,593	2,303	2,006	1,389		13,871	33,342
Amortization				4,667				4,667
Discontinued operations, net of tax						\$ (5,844)	(1,740)	(7,584)
Capital expenditures	2,573	4,039	140	445	1,149	98	2,150	10,594
Segment assets	30,989	2,894	12,779	102,307	22,702		133,067	304,738
Year Ended August 31, 2001								
Sales to external customers	\$ 156,299	\$ 90,450	\$ 7,881	\$ 134,450	\$ 50,701			\$ 439,781
Gross margin	79,637	50,922	453	86,312	32,475			249,799

EBITDA	22,800	25,137	(17,121)	11,489	10,624		\$(27,353)	25,576
Depreciation	8,424	867	2,804	1,838	879		12,629	27,441
Amortization	114		816	9,335	537		38	10,840
Significant non-cash items:								
Provision for losses on management loan program							1,052	1,052
Loss on impaired assets			201	500			100	801
Discontinued operations, net of tax						\$ 5,190	(3,077)	2,113
Capital expenditures	15,996	1,346	2,179	2,538	1,689	2,166	1,113	27,027
Segment assets	36,867	1,307	30,542	185,576	24,094	109,508	148,586	536,480

*Year Ended
August 31, 2000*

Sales to external customers	\$ 163,304	\$ 110,543	\$ 27,919	\$ 169,986	\$ 50,878			\$ 522,630
Gross margin	86,021	54,247	2,592	104,277	32,729			279,866
Stock option purchase and relocation costs							\$ 11,227	11,227
EBITDA	39,840	25,049	(16,024)	27,639	2,080		(37,292)	41,292
Depreciation	6,304	293	4,467	1,349	890		12,214	25,517
Amortization	607	324	816	10,630	686		6	13,069
Discontinued operations, net of tax							\$ 4,486	(1,423)
Significant non-cash items:								
Loss on impaired assets			33	1,907				1,940
Restructuring charge reversals							(4,946)	(4,946)
Capital expenditures	7,189	218	4,925	2,059	2,248	2,504	5,380	24,523
Segment assets	24,254	814	37,994	197,868	24,208	109,208	198,133	592,479

A reconciliation of reportable segment EBITDA to income (loss) from operations is presented below (in thousands):

***Fiscal Year Ended
August 31,***

	<i>2002</i>	<i>2001</i>	<i>2000</i>
Reportable segment EBITDA	\$ (28,062)	\$ 52,929	\$ 78,584
Stock option purchases and relocation costs			(11,227)
Provision for losses on management stock loans	(24,775)	(1,052)	
Restructuring costs			4,946
Corporate expenses	(27,411)	(26,301)	(31,011)
Consolidated EBITDA	(80,248)	25,576	41,292
Depreciation	(33,342)	(27,441)	(25,517)
Amortization	(4,667)	(10,840)	(13,069)
Interest income	3,112	3,180	1,079
Interest expense	(2,784)	(7,671)	(5,537)
Loss on interest rate swap agreement	(4,894)		
Other income (expense), net	644		(174)
Loss from continuing operations before income taxes	\$(122,179)	\$(17,196)	\$ (1,926)

Interest expense and interest income are primarily generated at the corporate level and are not allocated to the reporting segments. Income taxes are likewise calculated and paid on a corporate level (except for entities that operate within foreign jurisdictions) and are not allocated to reportable segments. Due to the nature of stock option purchase and relocation costs, they were not charged to reportable segments during fiscal 2000.

Corporate assets such as cash, accounts receivable, and other assets are not generally allocated to reportable segments for business analysis purposes. However, inventories, goodwill, intangible assets, identifiable fixed assets, and certain other assets are classified by segment. In connection with the implementation of SFAS No. 142, intangible assets generated from the merger with Covey Leadership Center were assigned to the OSBU. The Covey goodwill and intangible assets were previously classified with corporate assets. A reconciliation of segment assets to consolidated assets is as follows (in thousands):

***Fiscal Year Ended
August 31,***

	<i>2002</i>	<i>2001</i>	<i>2000</i>
Reportable segment assets of continuing operations	\$171,671	\$278,386	\$285,138
Segment assets of discontinued operations:			
Premier Agendas		109,508	109,208
franklinplanner.com		7,744	8,567
Corporate assets	133,806	144,511	197,257
Intercompany accounts receivable	(739)	(3,669)	(7,691)
Consolidated assets	\$304,738	\$536,480	\$592,479

Enterprise-Wide Information

Our revenues are derived primarily from the United States. However, we also operate direct offices or contract with licensees to provide products and services in various countries throughout the world. Our consolidated revenues and long-lived assets from continuing operations were as follows (in thousands):

***Fiscal Year Ended
August 31,***

	<i>2002</i>	<i>2001</i>	<i>2000</i>
Sales:			
United States	\$286,399	\$387,924	\$471,761
Americas	16,807	20,266	18,287

Japan/Greater China	14,640	16,567	14,585
Europe/Middle East	9,693	8,704	8,446
Australia	3,093	3,108	7,032
Others	2,366	3,212	2,519

	\$332,998	\$439,781	\$522,630
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Long-Lived Assets:

United States	\$177,842	\$296,807	\$323,975
Americas	3,174	5,297	1,927
Japan/Greater China	2,093	6,142	7,038
Europe/Middle East	650	396	503
Australia	240	926	1,146

	\$183,999	\$309,568	\$334,589
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Amounts reported under the "Americas" caption include North and South America except the United States. The Australia caption includes financial information from Australia, New Zealand, and neighboring countries such as Indonesia and Malaysia. Intersegment sales are immaterial and were eliminated in consolidation.

22. ACQUISITION AND DIVESTING ACTIVITIES

Fiscal 2002

During the second quarter of fiscal 2002, we sold Premier Agendas, a wholly owned subsidiary located in Bellingham, Washington, and Premier School Agendas Ltd., a wholly owned subsidiary organized in Ontario, Canada, to School Specialty, Inc., a company that specializes in providing products and services to students and schools. The sale price was \$152.5 million in cash plus the retention of Premier's working capital, which was received in the form of a \$4.0 million promissory note from the purchaser. The Company received full payment on the promissory note plus accrued interest during June 2002. Prior to the sale closing, we also received cash distributions from Premier's working capital that totaled approximately \$7.0 million. Additionally, we will receive \$0.8 million of cash from Premier related to estimated income tax payments and tax benefits from net operating losses. Under terms of the sale agreement, the Company has agreed not to sell student planners containing the Company's "7 Habits" and "What Matters Most" content directly to schools and school districts in the K through 12 market subsequent to the sale closing. We recognized a pretax gain of \$99.9 million (\$64.9 million after applicable taxes) on the sale of Premier, which was recorded as a gain on the sale of discontinued operations in our consolidated statement of operations for fiscal 2002. For additional information related to the sale of Premier, refer to Note 7.

Effective September 1, 2000 (fiscal 2001), we entered into a joint venture agreement with American Marketing Systems to form Franklin Covey Coaching, LLC. The joint venture agreement required our coaching programs to achieve specified earnings thresholds beginning in fiscal 2002 (the joint venture agreement did not contain an earnings threshold requirement in fiscal 2001) or the joint venture agreement could be terminated at the option of AMS. Based upon available information, the Company's management believed that the required earnings threshold in fiscal 2002 could be reached through increased business from existing coaching programs and the creation of new programs. However, due to unfavorable economic conditions and other factors, the Company's coaching programs did not produce \$3.2 million in earnings as required for fiscal 2002. As a result, AMS exercised its option to terminate the existing joint venture agreement effective August 31, 2002. Under the provisions of a new partnership agreement, we received a \$0.3 million payment at the end of fiscal 2002, will receive payments totaling \$2.0 million during fiscal 2003, and may receive an additional \$1.2 million in payments from AMS and FCC. Further information on the operating performance and new partnership agreement related to Franklin Covey Coaching, LLC can be found in Note 5.

Fiscal 2001

During April 2001, we purchased the Project Consulting Group for \$1.5 million in cash. The Project Consulting Group provides project consulting, project management, and project methodology training services. The purchase was accounted for using the purchase method of accounting and resulted in \$1.5 million of goodwill and related intangible assets. All of the goodwill generated from this acquisition, which totaled \$1.2 million, was written-off in connection with the adoption of SFAS No. 142.

Fiscal 2000

As of February 28, 2000, the Company sold the assets and substantially all of the business of its commercial printing division of Publishers Press. We retained the printing operations necessary for the production of our planners and other related products (now "Franklin Covey Printing"). The final sales price, after adjustments under terms of the purchase agreement, was \$13.4 million and consisted of \$11.0 million in cash and a \$2.4 million note payable to the Company over five years. Our net cash proceeds from the sale totaled \$6.4 million and we recognized a \$0.3 million gain from the sale of these assets, which was included as a component of net other expense in our consolidated statement of operations for the fiscal year ended August 31, 2000. During the second quarter of fiscal 2002, the purchaser of the commercial division of Publishers' Press filed for bankruptcy. Although the note receivable was secured by the parent company of the purchaser, difficult conditions in the printing industry also left the parent company insolvent during fiscal 2002. Accordingly, we expensed \$2.3 million of the remaining note receivable in fiscal 2002. The impairment charge was recorded as a component of loss on impaired assets in the accompanying consolidated statements of operations for the fiscal year ended August 31, 2002.

In December 1999, the Company purchased a majority interest in DayTracker.com (renamed franklinplanner.com), an on-line provider of scheduling and calendar services. The total purchase price was \$11.0 million in cash and notes payable. The acquisition was accounted for using the purchase method of accounting and resulted in \$9.0 million of goodwill and intangible assets that were being amortized on a straight-line basis over five years. However, during the fourth quarter of fiscal 2002, we discontinued the on-line planning services offered at franklinplanner.com and the results of operations for franklinplanner.com were included as discontinued operations in our consolidated financial statements. For further information regarding the termination of franklinplanner.com operations, refer to Note 7.

During September 1999, the Company acquired the assets of the Professional Resources Organization (the Jack Phillips Group) for \$1.5 million in cash. The Professional Resources Organization was a leading measurement assessment firm specializing in measuring the impact and return on investment of training and consulting programs. The acquisition was accounted for using the purchase method of accounting and resulted in \$1.5 million of goodwill and intangible assets. All of the goodwill generated from this acquisition, which totaled \$1.2 million, was written-off in connection with the adoption of SFAS No. 142 during fiscal 2002. The purchase agreement provides for bonus payments payable to Jack Phillips based upon the achievement of specified financial goals. At August 31, 2002 we had \$0.5 million accrued for bonus payments to Jack Phillips. These bonus payments were expensed as earned and were not considered as additions to the purchase price of the Jack Phillips Group.

23. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The unaudited quarterly financial information included in Item 7 of this report on Form 10-K is an integral part of the consolidated financial statements.

24. SUBSEQUENT EVENT

Subsequent to August 31, 2002, we purchased 20 percent of the common stock of Agilix Labs, Inc., a Delaware corporation for payments totaling \$1.0 million in cash. Agilix develops software applications for personal computers. The Company may, upon the achievement of specific objectives by Agilix, purchase another 10 percent of the common stock of Agilix Labs, Inc. for \$0.5 million.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

In June, 2002, the Company dismissed its former independent auditors, Arthur Andersen LLP, and engaged KPMG LLP. Additional information regarding this change in auditors is contained in the Company's report on Form 8-K filed June 6, 2002 and amended July 10, 2002 and in the Company's definitive Proxy Statement for the annual meeting of shareholders scheduled to be held on January 24, 2003, under the caption "Selection of Auditor."

Part III

Item 10. Directors and Executive Officers of the Registrant

The information required by this Item is incorporated by reference to the sections titled "Election of Directors," "Executive Officers" and "Executive Compensation" in the Company's definitive Proxy Statement for the annual meeting of shareholders which is scheduled to be held on January 24, 2003. The definitive Proxy Statement will be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended.

Item 11. Executive Compensation

The information required by the Item is incorporated by reference to the sections titled "Election of Directors - Director Compensation" and "Executive Compensation" in the Company's definitive Proxy Statement for the annual meeting of shareholders which is scheduled to be held on January 24, 2003.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this Item is incorporated by reference to the section titled "Principal Holders of Voting Securities" in the Company's definitive Proxy Statement for the annual meeting of shareholders which is scheduled to be held on January 24, 2003.

Item 13. Certain Relationships and Related Transactions

The information required by this Item is incorporated by reference to the section titled "Certain Relationships and Related Transactions" in the Company's definitive Proxy Statement for the annual meeting of shareholders which is scheduled to be held on January 24, 2003.

Item 14. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of our disclosure controls and procedures (as defined in Securities Exchange Act of 1934 Rules 13a-14(c)) as of a date within 90 days before the filing date of this annual report on Form 10-K. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective, timely providing them with material information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934.

(b) Changes in Internal Controls

In October 2002, under the terms and conditions of our outsourcing agreements with EDS, we began; but have not yet completed, a significant transition of our warehouse, distribution, and call center computer systems owned and operated by EDS. Concurrently, we are also upgrading our primary finance and accounting software. We do not expect these changes to negatively impact the effectiveness of our disclosure controls and procedures. This transition to new computer systems and software was not the result of the review and evaluation by our Chief Executive Officer and Chief Financial Officer.

Other than as set forth in the preceding paragraph, there have not been any significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the review and evaluation. There were no significant deficiencies or material weaknesses identified in the review and evaluation, and therefore no corrective actions were taken.

Part IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) Documents Filed

1. Financial Statements. The consolidated financial statements of the Company and Independent Auditors' Report thereon included in the Annual Report to Shareholders on Form 10-K for the year ended August 31, 2002, are as follows:

- Independent Auditor's Report
- Consolidated Balance Sheets at August 31, 2002 and 2001
- Consolidated Statements of Operations and Comprehensive Loss for the years ended August 31, 2002, 2001, and 2000
- Consolidated Statements of Shareholders' Equity for the years ended August 31, 2002, 2001 and 2000
- Consolidated Statements of Cash Flows for the years ended August 31, 2002, 2001 and 2000
- Notes to Consolidated Financial Statements

2. Exhibit List.

Exhibit No.	Exhibit	Incorporated by Reference	Filed Herewith
3.1	Revised Articles of Incorporation of the Registrant	(1)	
3.2	Amended and Restated Bylaws of the Registrant	(1)	
3.3	Articles of Amendment to Revised Articles of Incorporation of the Registrant (filed as Exhibit 2 to Schedule 13D)	(5)	
4.1	Specimen Certificate of the Registrant's Common Stock, par value \$.05 per share	(2)	
4.2	Stockholder Agreements, dated May 11, 1999 and June 2, 1999 (filed as Exhibits 1 and 3 to Schedule 13D)	(5)	
4.3	Registration Rights Agreement, dated June 2, 1999 (filed as Exhibit 4 to Schedule 13D)	(5)	
10.1	Amended and Restated 1992 Employee Stock Purchase Plan	(3)	
10.2	First Amendment to Amended and Restated 1992 Stock Incentive Plan	(4)	
10.3	Forms of Nonstatutory Stock Options	(1)	
10.4	Amended and Restated 2000 Employee Stock Purchase Plan	(6)	
10.5	Limited Liability Company Agreement of Franklin Covey Coaching LLC, dated September 1, 2000	(7)	
10.6	Agreement for Information Technology Services between each of Franklin Covey Co., electronic Data Systems Corporation and EDS Information Services LLC, dated April 1, 2001	(8)	
10.7	Additional Services Addendum #1 to Agreement for Information Technology Services between each of Franklin Covey Co., Electronic Data Systems Corporation and EDS Information Services LLC, dated June 30, 2001	(8)	
10.8	Amendment #2 to Agreement for Information Technology Services between each of Franklin Covey Co., Electronic Data Systems Corporation and EDS Information Services LLC, dated June 30, 2001	(8)	
10.9	Purchase Agreement By and Among Franklin Covey Co., Franklin Covey Canada Ltd., and 3956831 Canada Inc., dated November 13, 2001	(9)	
10.10	Amendment to Purchase Agreement By and Among Franklin Covey Co., Franklin Covey Canada Inc., dated December 2001	(10)	
10.11	Schedule TO Tender Offer Statement Under Section 14(D)(1) or 13(E)(1) of the Securities Exchange Act of 1934 for 7,333,333 shares of Franklin Covey Co. Common Stock at \$6.00 per share, and related amendments (filed initially as Schedule TO-I with the Securities and Exchange Commission on November 26, 2001, with related amendments on Schedule TO-I/A on November 28, 2001 and December 24, 2001)	(10)	
10.12	Amended and Restated Limited Liability Company Agreement of Franklin Covey Coaching, LLC		**
10.13	Consulting Agreement with Krisak and Company		**
10.14	Sabbatical and Severance Agreement with Stephen M. R. Covey		**
21	Subsidiaries of the Registrant		**
23	Consent of Independent Auditors		**
99.1	Section 906 Certificates		**
99.2	Report of KPMG LLP, Independent Auditors, on Consolidated Financial Statement Schedule for the years ended August 31, 2002, 2001, and 2000		**
99.3	Valuation and Qualifying Accounts and Reserves. Financial statement schedules other than the one identified above are omitted for the reason that they are not required or are not applicable, or the required information is shown in the consolidated financial statements or notes thereto, or contained in this report.		**

- (1) Incorporated by reference to Registration Statement on Form S-1 filed with the Commission on April 17, 1992, Registration No. 33-47283.
(2) Incorporated by reference to Amendment No. 1 to Registration Statement on Form S-1 filed with the Commission on May 26, 1992, Registration No. 33-47283.
(3) Incorporated by reference to Report on Form 10-K filed November 27, 1992, for the year ended August 31, 1992.
(4) Incorporated by reference to Registration Statement on Form S-1 filed with the Commission on January 3, 1994, Registration No. 33-73728.
(5) Incorporated by reference to Schedule 13D(CUSIP No. 534691090 as filed with the Commission on June 2, 1999)
(6) Incorporated by reference to Report on Form S-8 filed with the Commission on May 31, 2000, Registration No. 333-38172.
(7) Incorporated by reference to Report on Form 10-K filed November 29, 2000, for the year ended August 31, 2000.
(8) Incorporated by reference to Report on Form 10-Q filed July 10, 2001, for the quarter ended May 26, 2001.
(9) Incorporated by reference to Report on Form 10-K filed November 29, 2001, for the year ended August 31, 2001.
(10) Incorporated by reference to Report on Form 10-Q filed January 10, 2001, for the quarter ended November 24, 2001.
** Filed herewith and attached to this report.

(b) Reports on Form 8-K

None.

(c) Exhibits

Exhibits to this Report are attached following hereof.

(d) Financial Statement Schedule

See herein.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 25, 2002.

FRANKLIN COVEY CO.

By: /s/ ROBERT A. WHITMAN

Robert A. Whitman, Chief Executive Officer and Chairman

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ ROBERT A. WHITMAN Robert A. Whitman	Chairman of the Board and Chief Executive Officer	November 25, 2002
/s/ HYRUM W. SMITH Hyrum W. Smith	Vice-Chairman of the Board	November 25, 2002
/s/ STEPHEN R. COVEY Stephen R. Covey	Vice-Chairman of the Board	November 25, 2002
/s/ ROBERT H. DAINES Robert H. Daines	Director	November 25, 2002
/s/ E. J. "JAKE" GARN E. J. "Jake" Garn	Director	November 25, 2002
/s/ DENNIS G. HEINER Dennis G. Heiner	Director	November 25, 2002
/s/ BRIAN A. KRISAK Brian A. Krisak	Director	November 25, 2002
/s/ DONALD J. MCNAMARA Donald J. McNamara	Director	November 25, 2002
/s/ JOEL C. PETERSON Joel C. Peterson	Director	November 25, 2002
/s/ E. KAY STEPP E. Kay Stepp	Director	November 25, 2002

CERTIFICATIONS OF THE CEO AND CFO

I, Robert A. Whitman, certify that:

1. I have reviewed this annual report on Form 10-K of Franklin Covey Co.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
- c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 26, 2002

/s/ ROBERT A. WHITMAN

Robert A. Whitman
Chief Executive Officer

I, Stephen D. Young, certify that:

1. I have reviewed this annual report on Form 10-K of Franklin Covey Co.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
- c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 26, 2002

/s/ STEPHEN D. YOUNG

Stephen D. Young
Chief Financial Officer

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**AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT**

OF

FRANKLIN COVEY COACHING, L. L. C.

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**AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT**

OF

FRANKLIN COVEY COACHING, L.L.C.

This Amended and Restated Limited Liability Company Agreement (this "**Agreement**") is made as of August 31, 2002 (the "**Effective Date**") by and among those parties who, from time to time, execute this Agreement as members and are listed on attached Exhibit A. Such signatories to this Agreement are collectively called the "**Members**," and each is sometimes individually called a "**Member**."

Recitals

WHEREAS, AMS and Franklin Covey are parties to that certain Limited Liability Company Agreement of Franklin Covey Coaching, LLC, dated as of September 1, 2000 (the "**Original Agreement**");

WHEREAS, a dispute has arisen concerning the calculation of Modified Fair Market Value (as defined in the Original Agreement) in connection with the anticipated exercise by AMS of its rights under Section 7.5 of the Original Agreement;

WHEREAS, in resolution of such dispute, AMS and Franklin Covey have mutually agreed that: (i) the Company shall issue to Franklin Covey a profits interest in the Company designated as the Class B Membership Interest pursuant to this Agreement, and that all other outstanding membership interests in the Company shall be reclassified as Class A Membership Interests, (ii) the Company shall not dissolve but instead shall continue in existence for all purposes, (iii) AMS and/or its assigns shall purchase Franklin Covey's entire Class A Membership Interest, pursuant to a Membership Interest Purchase Agreement of even date herewith between AMS and Franklin Covey (the "**Purchase Agreement**"), and (iv) the Original Agreement shall be amended and restated in its entirety as set forth herein.

Agreement

NOW, THEREFORE, in consideration of the foregoing recital, each of which is hereby incorporated herein, and the mutual promises, terms and conditions contained herein, the receipt and sufficiency of which are hereby acknowledged, the Members hereby agree as follows:

1. DEFINITIONS

The following words, terms or phrases have the respective meanings set forth thereafter:

1.1. "**Adjusted Capital Account Deficit**" shall mean, with respect to any Member, the deficit balance, if any, in such Member's Capital Account as of the end of any Fiscal Year after giving effect to the following adjustments: (i) credit to such Capital Account the sum of (A) any amount which such Member is obligated to restore to such Capital Account pursuant to any provision of this Agreement, plus (B) an amount equal to such Member's share of Partnership Minimum Gain as determined under Section 1.704-2(g)(1) of the Regulations and such Member's share of Partner Nonrecourse Debt Minimum Gain as determined under Section 1.704-2(i)(5) of the Regulations, plus (C) any amounts which such Member is deemed to be obligated to restore pursuant to Section 1.704-1(b)(2)(ii)(c) of the Regulations; and (ii) debit to such Capital Account the items described in Sections 1.704-1(b)(2)(ii)(d)(4), (5) and (6) of the Regulations.

The foregoing definition of Adjusted Capital Account Deficit is intended to comply with the provisions of Section 1.704-1(b)(2)(ii)(d) of the Regulations and shall be interpreted consistently therewith.

1.2. "**Affiliate**" shall mean, with respect to any Person, any Person Controlled by, under common Control with or Controlled or managed by such Person.

1.3. "**Agreement**" shall mean this Amended and Restated Limited Liability Company Agreement as the same may be amended or supplemented from time to time in accordance with the provisions hereof.

1.4. "**AMS**" shall mean AMS Direct, Inc., a Delaware corporation.

1.5. "**Auditors**" shall mean Ernst & Young, LLP or another independent certified public accountant as from time to time may be engaged for the Company by the Management Board.

1.6. "**Bankrupt**" shall mean, with respect to any Member, the occurrence of any one or more of the following: (i) the making by such Member of an assignment for the benefit of creditors; (ii) the filing against such Member of an involuntary petition seeking an adjudication of bankruptcy under Chapter 7 of the Bankruptcy Code, which filing is not dismissed within sixty (60) days of the filing; (iii) the filing of a voluntary petition by such Member under Chapter 7 of the Bankruptcy Code; (iv) the entry of an order of relief against such Member under Chapter 7 of the Bankruptcy Code; (v) the filing of a voluntary or involuntary petition by or against such Member under Chapters 11 or 13 of the Bankruptcy Code which is not dismissed within sixty (60) days of the filing; (vi) the entry of an order, judgment or decree by a court of competent jurisdiction providing for the liquidation of the assets of such Member or appointing a receiver, trustee or other administrator of such Member's assets which continues in effect and unstayed for a period of sixty (60) days; (vii) the confirmation of any plan of reorganization under either Chapter 11 or 13 of the Bankruptcy Code providing for the liquidation of substantially all of such Member's assets or (viii) a written admission by such Member of inability to pay debts.

1.7. "**Bankruptcy Code**" shall mean Title 11 of the United States Code, as now in effect or as hereafter amended.

1.8. "**Business**" shall mean, as of any date, developing, marketing, and/or providing, in person or through any form of communication or media, personalized coaching programs and/or services, involving one-on-one interaction, of the same general type and nature as those provided by the Company as of such date; provided, that Business shall not include any proprietary businesses of AMS or Franklin Covey that are not related specifically to coaching and shall not include seminar training or product sales, public or corporate training programs, works of authorship, intellectual property development or the licensing or sale of any other goods or services provided by any subsidiary or division of AMS or Franklin Covey other than the Franklin Covey personal coaching division as of the date of execution of the Original Agreement.

1.9. "**Capital Account**" shall mean the record of a Member's contributions, distributions, allocable share of income, gain, loss and deduction maintained by the Company in accordance with the capital account rules of Section 1.704-1(b) of the Regulations. The Company shall adjust Capital Accounts to reflect the fair market value of Company property in accordance with Section 1.704-1(b)(2)(iv)(f) of the Regulations in connection with any events described in Section 1.704-1(b)(2)(iv)(f)(5) of the Regulations.

1.10. "**Capital Call**" shall have the meaning given such term in Section 4.7(b) hereof.

1.11. "**Cash Flow**" shall mean, for any period, any and all cash receipts from any source whatsoever except contributions to capital and proceeds from financings, borrowings or other extensions of credit after deducting (i) all cash expenditures, expenses, debts and obligations of the Company payable in such period, including those due to the Managers and Officers, and all capital expenditures made during such period; and (ii) such reserves, or increase of any existing reserves, necessary or appropriate for outstanding expenses and anticipated cash needs of the Company, including without limitation, reserves for capital investments, business expansion and anticipated operating expenses, which deductions shall be, in each case (at all times prior to the Class B Redemption Date (as defined in Section 7.4)), made in a manner and rate not materially inconsistent with past practices.

- 1.12. "**Certificate**" shall mean the Certificate of Formation of the Company, duly filed and amended in accordance with the laws of the State of Delaware.
- 1.13. "**Class A Member**" shall mean a holder of Class A Membership Interests who has been accepted as a Member of the Company pursuant to this Agreement.
- 1.14. "**Class A Interests**" shall mean those Class A Membership Interests in the Company described more fully in Section 4.1.
- 1.15. "**Class B Member**" shall mean a holder of Class B Interests who has been accepted as a Member of the Company pursuant to this Agreement.
- 1.16. "**Class B Interests**" shall mean those of Class B Interests in the Company described more fully in Section 4.1.
- 1.17. "**Code**" shall mean the Internal Revenue Code of 1986, as now in effect or as hereafter amended including, but not limited to, any successor or substitute federal tax codes or legislation.
- 1.18. "**Communication**" shall mean any and all notices, requests, demands, elections and other communications given in connection with this Agreement.
- 1.19. "**Company**" shall mean Franklin Covey Coaching, L.L.C., a Delaware limited liability company.
- 1.20. "**Company Act**" shall mean the Limited Liability Company Act of the State of Delaware, as amended from time to time.
- 1.21. "**Company's Office**" shall have the meaning given to such term in Section 2.4.
- 1.22. "**Confidential Information**" shall have the meaning given to such term in Section 3.2(b).
- 1.23. "**Control**" shall mean, with respect to a Person (i) direct or indirect ownership of fifty percent (50%) or more of the total combined voting power of all classes of equity interests in the controlled entity entitled to vote, or (ii) being an officer, director, manager, trustee or general partner of the controlled entity (or an officer, director, manager, general partner or trustee of a manager, trustee or general partner of the controlled entity).
- 1.24. "**Deemed Delivery**" shall mean, with respect to a written Communication sent to a recipient Member or the Company (the "Recipient"), the earlier of (a) the date it shall be delivered to the address of the Recipient on the records of the Company (the "Recipient's Address"), (b) the date delivery shall have been refused at the Recipient's Address, (c) with respect to a Communication sent by mail, the date as of which the postal service shall have indicated such Communication to be undeliverable at the Recipient's Address, or (d) with respect to a Communication sent by facsimile to the facsimile number of the Recipient on the records of the Company and in respect of which a facsimile receipt confirmation statement is printed, (i) the next business day after receipt, if the Communication is received at or after five (5) p.m. in the time zone of the Recipient, or (ii) the day of receipt if the Communication is received before five (5) p.m. in the time zone of the Recipient.
- 1.25. "**Effective Date**" shall have the meaning given such term in the preamble hereto.
- 1.26. "**Excepted Transfer**" shall mean any Transfer by a Member of a Membership Interest to a controlled subsidiary or affiliate of such Member (or a family member of such Member or a trust for the benefit of such Member and/or such Member's family members, in the case of any individual Member); provided that the transferee first agrees to become a party to this Agreement and bound hereby and provided that no such Transfer shall relieve the transferring Member of its obligations hereunder without the prior written consent of the other Members.
- 1.27. "**Fiscal Year**" shall mean the period from September 1 to August 31 of each year, or such other period as may hereafter be adopted by the Managers.
- 1.28. "**Franklin Covey**" shall mean Franklin Covey Co., a Utah corporation.
- 1.29. "**Franklin Covey Programs**" means all coaching programs and other services and materials provided by the Company with respect to (i) proprietary coaching programs now or hereafter developed, produced and/or marketed by Franklin Covey or its Affiliates (other than the Company), and/or (ii) any of the third party programs identified on Exhibit B attached hereto.
- 1.30. "**Franklin Covey Program Income**" means, for any period, the Operating Margin generated by Franklin Covey Programs during such period, minus the Franklin Covey Program Share of all remaining operating expenses (other than those included in Franklin Covey's Operating Margin) incurred by the Company during such period.
- 1.31. "**Franklin Covey Program Share**" means, for any period, the percentage equivalent of a fraction, the numerator of which shall be the total revenue from Franklin Covey Programs during such period, and the denominator of which shall be the total revenue of the Company during such period.
- 1.32. "**Gross Asset Value**" shall mean, with respect to any Company asset, the asset's adjusted basis for federal income tax purposes, except as follows:
- The initial Gross Asset Value of an asset contributed by a Member to the Company shall be the gross fair market value of such asset as of the date of contribution.
 - The Gross Asset Values of all Company assets shall be adjusted to equal the assets' respective gross fair market values, as determined by the Company using such reasonable and uniform methods of valuation as it may adopt, as of the following times: (i) the acquisition of additional Membership Interests in the Company by any new or existing Member in exchange for more than a de minimus capital contribution, or the distribution by the Company of more than a de minimus amount of money or other property to a Member as consideration for all or part of its Membership Interests in the Company; and (ii) the liquidation of the Company within the meaning of Section 1.704-1(b)(2)(ii)(g) of the Regulations.
 - The Gross Asset Value of any Company asset distributed to a Member shall be the gross fair market value of such asset on the date of contribution.
 - The Gross Asset Values of Company assets shall be increased (or decreased) to reflect any adjustments to the adjusted basis of such assets pursuant to Code Sections 734(b) or 743(b), but only to the extent such adjustments are taken into account in determining Capital Accounts pursuant to Section 1.704-1(b)(2)(iv)(m) of the Regulations.
 - In the event of dissolution or liquidation, the Gross Asset Value of any Company asset distributed to a Member shall be the gross fair market value of such asset on the date of distribution.
- If the Gross Asset Value of an asset has been determined or adjusted pursuant to subsections a., b., c. or d., above, such Gross Asset Value shall thereafter be adjusted by the depreciation, cost recovery or amortization taken into account with respect to such asset for purposes of computing Profits or Losses. Such items shall be computed in accordance with Section 1.704-1(b)(2)(iv)(g)(3) of the Regulations.
- 1.33. "**Management Board**" shall mean the Management Board of the Company described in Section 5.2.
- 1.34. "**Manager**" shall have the meaning given such term in Section 5.2(b) hereof.
- 1.35. "**Member**" shall have the meaning given such term in the preamble hereto.
- 1.36. "**Membership Interest**" shall mean a Member's entire ownership interest in the Company, including the Member's interest in the capital, Net Profits or Losses, gains, losses and credits of the Company (whether expressed in terms of the Member's Percentage Interest, Units or otherwise) and all rights and obligations with respect to the Company under this Agreement and the Company Act, including, but not limited to, the right to receive distributions from the Company.
- 1.37. "**Net Profits or Losses**" shall mean the Profits or Losses for the Fiscal Year computed under the accrual method of accounting.
- 1.38. "**Non-Contributing Member**" shall have the meaning given such term in Section 4.7(c) hereof.
- 1.39. "**Officer**" shall mean those Persons appointed by the Management Board pursuant to Section 5.3 herein.
- 1.40. "**Operating Margin**" means, during any period with respect to the Franklin Covey Programs, the total revenue generated by such Programs during such period, minus the costs directly attributable to such Programs (including without limitation, business promotion costs of such Program) during such period.
- 1.41. "**Organization Transactions**" shall mean all transactions in connection with the contribution to and/or acquisition by the Company of (a) Franklin Covey's coaching services business and all related assets and liabilities, pursuant to that certain Contribution Agreement dated as of September 1, 2000 between the Company and Franklin Covey, and (b) AMS' contributed assets pursuant to that certain Contribution Agreement dated as of September 1, 2000 between the Company and AMS.
- 1.42. "**Percentage Interest**" shall mean a Class A Member's percentage interest in the aggregate share of Cash Flow, Net Profits or Losses, gains, losses and tax credits and distributions of the Company to be made and/or allocated to the Class A Interests as a whole, as well as the Class A Member's percentage vote on matters requiring a vote of the Members, in each case represented by such Class A Member's Membership Interest in the Company. The initial Percentage Interests of the Class A Members shall be as set forth on Exhibit A attached hereto and shall be changed from time to time as provided in this Agreement.
- 1.43. "**Person**" shall mean an individual, general partnership, limited partnership, limited liability company, corporation, joint venture, trust, estate, business trust, cooperative or association and their heirs, executors, administrators, legal representatives, successors, and assigns of such Person where the context so permits.

1.44. "**Profits**" or "**Losses**" shall mean, for each Fiscal Year or other period, an amount equal to the Company's taxable income or loss for such Fiscal Year or period, determined in accordance with Section 703(a) of the Code (all items of income, gain, loss or deduction required to be stated separately pursuant to Section 703(a)(1) of the Code being included in taxable income or loss for this purpose), with the following adjustments;

- a. Any income of the Company described in Section 705(a)(1)(B) of the Code that is exempt from federal income tax and not otherwise taken into account in computing Profits or Losses shall be added to such taxable income or subtracted from such taxable loss.
- b. Any expenditures of the Company described in Section 705(a)(2)(B) of the Code or treated as Section 705(a)(2)(B) expenditures pursuant to Section 1.704-1(b)(2)(iv)(i) of the Regulations and not otherwise taken into account in computing Profits or Losses shall be subtracted from such taxable income or added to such taxable loss.
- c. In the event the Gross Asset Value of any Company asset is adjusted upon the occurrence of any of the events specified in clauses (c) or (d) of the definition of "Gross Asset Value" herein the amount of such adjustment shall be taken into account as gain or loss from the disposition of such asset for purposes of computing Profits or Losses.
- d. Gain or loss resulting from any disposition of an asset with respect to which gain or loss is recognized for federal income tax purposes shall be computed by reference to the Gross Asset Value of such asset.

1.45. "**Regulations**" shall mean the federal income tax regulations promulgated by the Department of the Treasury under the Code, including temporary (but not proposed) regulations, as such regulations shall be in effect from time to time.

1.46. "**Securities Act**" shall mean the Securities Act of 1933, as amended.

1.47. "**Transfer**" shall mean the sale, assignment, conveyance, gift, pledge or other transfer or encumbrance of Membership Interests.

1.48. "**Unit**" shall mean a divisible portion of a Member's Membership Interests carrying with it a proportionate amount of each aspect of the rights, privileges, duties and obligations of the Member relating to such Member's Membership Interests. Initially, each one percent (1%) of Membership Interest of a given class shall be comprised of one (1) Unit of such class.

2. FORMATION, PURPOSES AND DURATION

2.1. Formation and Name.

- a. Pursuant to the Original Agreement, the Members formed a company pursuant to the Company Act to be known as "Franklin Covey Coaching, L.L.C." The Company shall change its name to a name dissimilar to "Franklin Covey Coaching, L.L.C." within 180 days after the Class B Redemption Date.
- b. The business of the Company shall be conducted under the name indicated in Section 2.1.a, or such other name as the Company may from time to time adopt, and all assets of the Company shall be held under such name except as provided in Section 2.5.
- c. The ownership interests, rights and obligations of the Members as members in the Company shall be as provided in the Company Act, except and to the extent otherwise provided in this Agreement.
- d. The Company shall bear the expenses directly incident to its formation, including, but not limited to, filing and recording fees, taxes and legal and accounting fees incident to the formation and operation of the Company.

2.2. Purposes of the Company. The purposes of the Company shall be:

- a. To engage in the Business, and any and all other business and activities that the Managers may in their discretion determine; and
- b. To perform any and all lawful acts incidental to the foregoing purpose or reasonably necessary to the fulfillment of the foregoing purpose.

2.3. Scope of the Members' Authority. Except as otherwise expressly and specifically provided in this Agreement, no Member shall have any authority in such capacity to bind or act for, or assume any obligation or responsibility on behalf of, the Company or any other Member or the Company. Neither the Company nor any Member shall be responsible or liable for any indebtedness or obligation of any other Member or otherwise relating to the Company property, except as to those responsibilities, liabilities, indebtedness or obligations incurred by separate agreement or instrument or incurred on or after the date hereof pursuant to and as limited by the terms of this Agreement. Except as may otherwise be expressly required by law or this Agreement, the Class B Interests shall have no right to vote.

2.4. Principal Place of Business. The Company shall have its principal place of business at 2650 South Decker Lake Boulevard, 2nd Floor, Salt Lake City, Utah 84119 (the "**Company's Office**") or such other place as determined by the Management Board from time to time.

2.5. Title to Company Properties. Legal title to all Company properties shall be taken and at all times held in the name of the Company, except that any real estate held by the Company may alternatively be held in the name of a trustee for the Company, provided that the Company is specifically designated by name as sole beneficiary or principal under a written trust agreement executed by any such trustee.

2.6. Term. The term of the Company shall commence on the date of the filing of the Articles with the appropriate authorities of the State, and shall be perpetual until the Company is dissolved in accordance with the provisions of this Agreement or the Company Act.

2.7. Assumed Name Certificate. The Officers shall execute, file and publish an assumed name certificate, if necessary, and such other certificates and documents as may be required by applicable law with respect to the Company, in Delaware, Utah and all other states in which the Company engages in business.

2.8. Other Business Activities; Waiver. Subject to Section 3.2., below, any Member or any officer, manager, director, employee, partner, shareholder, member or other Person holding a legal or beneficial interest in any entity which is a Member or any Affiliate of a Member may engage in, broker, or possess an interest in other business ventures of every nature and description other than the Business, independently or with others, and neither the Company nor the Members shall have any right by virtue of this Agreement in or to such independent ventures or to the income or profits derived therefrom except those rights, if any, in and to any New Business Opportunity as defined in Section 3.1 below.

3. CERTAIN MATTERS RELATING TO THE BUSINESS

3.1. Business Opportunities. It is the express intent of the Members that the Company shall be the exclusive vehicle to develop and provide all personal coaching and related programs and services relating to the proprietary programs and materials of each Member. Therefore, no Member shall at any time when such Person is a Member, without the prior unanimous consent of the Managers, (i) directly or indirectly (including through any contract, license or other arrangement with third parties) develop, market, or provide any personal coaching, training or personal interactive learning program or service related thereto of the same or similar nature as the Business ("**Scope**" and any such proposed service offering or program within such Scope being a "**New Business Opportunity**") with or for any Person other than the Company; (ii) license or otherwise provide any program content or materials for use in any New Business Opportunity to any Person other than the Company; or (iii) sell or license any customer lists, inquiry lists, or other information relating to customers or potential customers, and/or any marketing rights relating thereto ("**Leads**") to any Person for the purpose, in whole or in part, of having such Person provide and/or offer to provide any products or services with respect to such New Business Opportunity or otherwise within the Scope to such Leads; other than to or through the Company

3.2. Noncompetition; Confidential Information.

- a. At all times while a Person is a Member, neither such Person nor any Affiliate of such Person may (1) engage, directly or indirectly, in the Business, (2) contact, solicit, or direct any Person to contact or solicit, any of the customers of the Company for the purpose of providing any services that are the same or similar to those offered by the Company (and the restriction in this clause (2) will continue for eighteen (18) months after such Person is no longer a Member), or (3) solicit, or accept if offered to it with or without solicitation, the services of any individual who is an Officer or employee of the Company at the time of such solicitation or acceptance or has been an employee of the Company within the one year prior to such solicitation or acceptance (and the restriction in this clause (3) will continue for eighteen (18) months after such Person is no longer a Member). The provisions of this Section 3.2.a. shall not apply to Members in the event of dissolution or liquidation of the Company.
- b. The Company has furnished to each Member certain information that is either non-public, confidential, or proprietary in nature. The Company may also impart to the Members from time to time additional non-public, confidential, or proprietary information, including, without limitation, one or more business plans and other procedures, concepts, methods, trade secrets, documentation, diagrams, manuals, handbooks, training or processing materials, marketing techniques or development plans, financial and pricing information, and the like, whether oral or written. All such material heretofore or hereafter furnished to the Members which at the time of disclosure was or is marked with a suitable legend, such as "Confidential," together with any analysis, compilations, studies, summaries, or documents prepared for review by the Members, their agents, or their employees, is hereinafter referred to as the "**Confidential Information**." If Confidential Information is disclosed orally or visually, the Company agrees to identify the same as "Confidential" at the time of disclosure. The Confidential Information also includes any

information described above which the Company obtains from third parties and which the Company treats as confidential or proprietary, regardless of whether such information is owned or developed by the Company. Confidential Information shall not include information that: (i) is in or comes into the public domain without any breach of any obligation of confidentiality owed to the Company; (ii) was in a Member's possession prior to the Effective Date without the breach or existence of any obligation of confidentiality to the Company; (iii) is independently developed by or comes into the possession of a Member at any time hereafter without reference to any information from the Company and without any breach of any obligation of confidentiality owed to the Company; or (iv) is required to be disclosed under or by applicable law, regulation or lawful court order.

- c. Each Member agrees (at all times while a Member and for two years thereafter) to maintain the Confidential Information in secrecy and confidence and not to, directly or indirectly, without the prior written consent of the Company, disclose or cause to be disclosed, or use or make known, or suffer or permit any former, current, or prospective employee or agent of such Member or any Affiliate of such Member to disclose or cause to be disclosed, or use or make known, any of the Confidential Information, except in connection with the conduct of the Company's business.
- d. Each Member agrees that any material violations of this Section 3.2. would cause irreparable harm to the Company and its Members. Therefore, each Member consents and agrees that if such Member materially violates the terms of this Section 3.2., the Company shall be entitled, in addition to any other rights and remedies that it may have (including monetary damages), to apply to any court of competent jurisdiction for specific performance and/or injunctive or other relief in order to enforce, or prevent any continuing or threatened violation of, the provisions of this Section 3.2 by such Member. If the Company shall institute any action or proceeding to enforce the provisions of this Section 3.2, each Member hereby waives the claim or defense that this is an adequate remedy at law, and each Member agrees in any such action or proceeding not to interpose the claim or defense that such remedy exists at law.

4. MEMBERSHIP INTERESTS, CAPITAL CONTRIBUTIONS AND DISTRIBUTIONS

4.1. Membership Interests.

- a. The Company shall have two classes of Membership Interests, known as Class A Interests and Class B Interests.
- b. After giving effect to the transactions contemplated by the Purchase Agreement and this Agreement, the respective Classes of Interest (and in the case of Class A Interests, Percentage Interests) of each Member shall be set forth on Exhibit A attached hereto:

4.2. Initial Capital Contribution.

- a. Each Member has previously contributed the property and/or rights indicated opposite such Member's name on Exhibit A to the Original Agreement in consideration for the Class A Interests. The holder of the Class B Interests has made no contribution to the capital of the Company in consideration for such holder's Class B Interests.
- b. Subject to Section 4.3.f., the Capital Account of each of the Members shall be credited with the current total of all capital contributions by such Member to the Company less any distributions to such Member.
- c. No Member shall be entitled to any interest on such Member's capital contributions to the Company.

4.3. Capital Accounts.

- a. A Capital Account shall be established and maintained for each Member in accordance with the Code and with the Regulations and shall be subject to adjustment as provided in Section 4.3.b.
- b. In accordance with and subject to the Regulations, the Capital Account of each Member shall from time to time be:
 - (1) Increased by (i) the amount of cash and the Gross Asset Value of property contributed by such Member, (ii) such Member's share of the Profits, determined pursuant to Section 6.7 for Capital Account purposes, whether or not distributed, and (iii) the amount of any Company liabilities assumed by such Member or which are secured by any Company property distributed to such Member;
 - (2) Decreased by (i) the amount of cash and the Gross Asset Value of property distributed to such Member, (ii) such Member's share of Losses, determined pursuant to Section 6.7 for Capital Account purposes, and (iii) the amount of any liabilities of such Member assumed by the Company or which are secured by any property contributed by such Member to the Company; and
 - (3) Increased or decreased, as the case may be, to reflect the fair market value of Company property in accordance with Section 1.704-1(b)(2)(iv)(f) of the regulations in connection with any events described in Section 1.704-1(b)(2)(iv)(f)(5) of the regulations.
- c. Except as otherwise provided in this Agreement, whenever it becomes necessary to ascertain the balance of any Member's Capital Account, such a determination shall be made after giving effect to all allocations of Profits and Losses and other applicable adjustments for the current taxable year and all distributions for such year in respect of transactions effected prior to the date as of which such determination is to be made. No Member shall be entitled to (i) make any withdrawal from its Capital Account or to receive any distribution from the Company, except as expressly provided in this Agreement, or (ii) make any additional capital contribution to the Company other than as provided herein.
- d. Any dispute between the Members with respect to determination of Capital Accounts or otherwise with respect to the manner or method of accounting by the Company shall be resolved by an independent third party accounting firm mutually acceptable to the Members in question.
- e. In the event that property is distributed by the Company to a Member (including distributions in liquidation of the Company), the Capital Accounts of the Members shall be adjusted immediately before such distribution, in accordance with the applicable allocation of Profits and Losses, to reflect the Profits or Losses and other applicable adjustments that would have been realized by the Company if the distributed property had been sold on the date of its distribution for its fair market value.
- f. The Capital Account of any Person who acquires Membership Interests from a Member (including, without limitation, Membership Interests transferred pursuant to the Purchase Agreement) shall include the Capital Account of the Member from whom the Membership Interest was acquired.

4.4. Limitation on Members' Liabilities. A Member shall not be bound by, or be personally liable for, the expenses, liabilities or obligations of the Company, and the liability of each Member shall be limited solely to the amount of such Member's contribution to the capital of the Company, except as otherwise required by the laws of the State of Delaware.

4.5. Distributions of Net Cash Flow.

- a. For purposes hereof, the "**Distributable Cash Flow**" with respect to each Fiscal Year or portion of a Fiscal Year shall mean the Cash Flow for such Fiscal Year or portion of a Fiscal Year, after first deducting, in all periods up through September 30, 2003, any Franklin Covey Program Income generated during such period. The Company shall distribute Distributable Cash Flow for each Fiscal Year or portion of a Fiscal Year (with such frequency as required under Section 4.6), 60% to the Class A Members, pro rata according to the Class A Members' respective Percentage Interests, and 40% to the Class B Member; provided that the Class B Interests shall no longer be entitled to receive any further distributions pursuant to this Section 4.5.a after the Company has distributed a total of \$2,000,000 to the Class B Interests pursuant to this Section 4.5.a (the "**Class B Maximum**"), and the Company shall distribute all further Distributable Cash Flow thereafter to the Class A Members, pro rata according to the Class A Members' respective Percentage Interests. The Company may, but shall not be obligated to, make special distributions to the Class B Interests in an amount up to the positive difference between (A) the Class B Maximum and (B) the aggregate total of all prior distributions previously made to the Class B Interests pursuant to this Section 4.5.a from and after September 1, 2002.
- b. After September 30, 2002, and on or prior to October 15, 2003, the Company shall determine, report to the Class B Member and distribute to the Class B Member the positive amount, if any, equal to the lesser of (i) the Franklin Covey Program

Income generated during the thirteen month period ending September 30, 2003, or (ii) \$1,225,000 (the "**Special FC Distribution**"). Upon calculation and receipt of the Special FC Distribution, if any, the Class B Interests shall no longer be entitled to receive any distributions pursuant to this Section 4.5.b and all Franklin Covey Program Income, if any, shall thereafter be part of Distributable Cash Flow to be distributed pursuant to Section 4.5.a.

4.6. **Time of Determination and Distribution of Distributable Cash** Distributable Cash Flow shall, except as otherwise provided in this Agreement, be determined by the Management Board, and shall be distributed from time to time by the Officers pursuant to the directions of the Management Board. Until the Class B Maximum has been distributed, the Company shall determine, report and distribute Distributable Cash Flow at least as often as quarterly, promptly following the end of each fiscal quarter of the Company.

5. MANAGEMENT OF THE COMPANY

5.1. **Members; No Control of Business or Right to Act for Company.** Other than as otherwise provided in this Agreement, a Member shall take no part (in such capacity) in the management, conduct or control of the business of the Company and shall have no right or authority (in such capacity) to act for or to bind the Company.

5.2. The Management Board.

- a. The overall management and control of the business and affairs of the Company shall be vested in the Management Board, which shall have all the powers and authority of managers under the Company Act, or necessary or advisable in connection, or consistent, therewith. All actions approved by the Management Board (including through its appointed Officers) shall be binding on the Company and each of the Members. In this regard, all actions taken by any Managers or Officers in connection with the Organization Transactions shall be deemed to be and treated for all purposes as actions approved by the Management Board.
- b. The Management Board shall be composed of up to five (5) individuals (the "**Managers**"), who shall be elected annually by the Class A Members who hold a majority of the outstanding Percentage Interests.
- c. At all times while the Class B Interests are outstanding, the Company shall invite a representative designated by the holder of the Class B Interests to attend all meetings, including without limitation, informational meetings, of the Management Board in a nonvoting observer capacity and, in this respect, shall give such representative copies of all notices, minutes, consents, and other material that it provides to its directors, except that such representative shall not be entitled to so attend and observe and shall not be entitled to such information if the Management Board in good faith determines that such attendance, observation or disclosure would be likely to result in a loss of attorney-client privilege with respect to discussions at such meetings or with respect to such materials; and provided further that the representative shall agree to sign a protective agreement or such other documents as the Management Board reasonably deems necessary to protect and maintain the confidentiality of its confidential information. Such representative may participate in discussions of matters brought to the Management Board. The initial representative shall be Val John Christensen and the Company shall have the right to reasonably approve any change in this representative.

5.3. **Officers.** The Management Board shall elect officers for the Company from time to time. The authority and specific responsibilities of each of the Company's officers are set forth in the Bylaws and shall be limited to the express authority contained therein or in resolutions adopted from time to time by the Management Board.

6. ACCOUNTING AND TAXES

6.1. Books and Records.

- a. At all times during the term hereof, the Management Board shall use its best efforts to cause accurate books and records of account to be maintained in which are to be entered all matters relating to the business and operations of the Company, including all income, expenditures, assets and liabilities thereof. The Company's financial records shall be maintained on an accrual basis in accordance with generally accepted accounting principles.
- b. Such books and records of account should be maintained on the accrual basis and shall be adequate to provide each Member with all such financial information as may be needed by such Member for purposes of satisfying the financial reporting obligations of such Member.
- c. Each Member is entitled to any information reasonably necessary for the preparation of such Member's federal or state tax returns.

6.2. **Rights of Inspection.** Each Member and/or its authorized representatives shall have the right to inspect, examine and copy (at such Member's expense) the books, records, files, securities and other documents of the Company, for a proper purpose consistent with such Member's rights under this Agreement and during the regular business hours of the Company upon giving reasonable prior written notice.

6.3. **Bank Accounts.** All funds of the Company, including, without limitation, all funds representing capital contributions to the Company, and the proceeds of all borrowings of the Company, shall be deposited in such "**Operating Accounts**" of a type, in a form and in a bank or banks selected by the Management Board. All Company expenses and distributions are to be paid from such Operating Accounts.

6.4. **Financial Statements.** The Company shall retain independent certified accountants independent from the audit firm of either Member. Within forty-five (45) days after the end of each of the first three quarters of each Fiscal Year, the Company shall send to the Members unaudited statements of operations and cash flows for such fiscal quarter and for the period from the beginning of such Fiscal Year to the end of such fiscal quarter and an unaudited balance sheet as of the close of such fiscal quarter. As soon as practicable after the end of each Fiscal Year ending on or after the Effective Date, but not later than ninety (90) days after the beginning of the following Fiscal Year, the Company shall provide to each Member audited statements of operations, Member's equity and cash flows, for such ended Fiscal Year, and an audited balance sheet (including a breakdown of each Member's Capital Account and a statement of allocations to each Member of its respective portion of the Company's taxable income for such Fiscal Year) as of the close of such ended Fiscal Year, including appropriate notes to such financial statements, audited by the Auditors, all of which shall be prepared in accordance with generally accepted accounting principles and/or requirements for tax accounting pursuant to the Regulations.

6.5. **Other Accounting Decisions.** All accounting decisions for the Company (other than those specifically provided for in any other Section of this Agreement) shall be made by the Management Board.

6.6. **Preparation of Tax Returns.** Upon being provided by the Members with all information required for their preparation, the Management Board or its agents shall, on behalf of the Company, use their best efforts to cause all federal, state and local income tax returns of the Company to be prepared. The Management Board will use its best efforts to cause copies of all tax returns of the Company to be made available for review by the Members at least thirty days prior to the statutory date for filing, including extensions thereof, if any.

6.7. **Allocation of Profits, Gains and Losses.** Except as otherwise provided in this Agreement, net profits, net gains, net losses, deductions and Federal tax credits, if any, for any Fiscal Year shall be allocated among the Members in accordance with Regulations under 704(b) pursuant to the terms of this Section 6.7.

- a. **Profits.** All items of Profits, income and gain of the Company with respect to any Fiscal Year shall be allocated to the Members in the same proportions and to the same extent as distributions of Distributable Cash Flow and Special FC Distribution were actually made to the Members pursuant to this Agreement with respect to such period. In the event that, pursuant to the terms of this Section 6.7, the items of Profits, income or gain with respect to any Fiscal Year exceed all of the distributions of Distributable Cash Flow and Special FC Distribution actually made to the Members with respect to such Fiscal Year, such excess with respect to such Fiscal Year shall be allocated to the Class A Members pro rata according to their Percentage Interests.
- b. **Losses.** Losses and credits shall be allocated to the Members proportionately with respect to their respective positive Capital Account balances, or to the extent such Losses or credits allocable herein exceed the foregoing amounts so that any Losses or credits have not otherwise been allocated, such excess shall be allocated to the Class A Members pro rata according to their Percentage Interests.
- c. **Allocations with Respect to Mid-year Transferred Membership Interests.** In the event of a Transfer of a Member's Membership Interest or any portion thereof, the Member's items of Profits and Losses shall be allocated between the Transferor (as defined in Section 7.3 below) and the Transferee (as defined in Section 7.3 below) in the ratio of the number of days in the fiscal year of the Company before and after the effective date of the Transfer.

6.8. **Tax Decisions Not Specified.** Tax decisions and elections for the Company not provided for herein shall be made in the discretion of the Management Board.

6.9. **Notice of Tax Audit.** The Company will use its best efforts to give prompt notice to the Members upon receipt of advice that the Internal Revenue Service intends to examine Company income tax returns for any Fiscal Year.

6.10. **Tax Matters Partner.** AMS will be the tax matters partner (the "**Tax Matters Partner**") for purposes of Sections 6221-6231 of the Code and the Regulations. The Tax Matters Partner agrees to use its best efforts to comply in good faith with all provisions of the Code concerning a tax matters partner and to take all actions necessary to make each Member a notice partner under the Code. The Tax Matters Partner will use its best efforts to give each Member copies of all notices or other material communications delivered to or by him with respect to federal, state or local tax matters, negotiations, decisions, settlements or other events. The Tax Matters Partner may not initiate or take material action with respect to any litigation without the prior consent of the Members in accordance with Section 5.5.

7. SALE, TRANSFER AND REDEMPTION

7.1. General. Except for any Transfer which is an Excepted Transfer, no Member shall (i) Transfer all or any part of its Membership Interests, or (ii) contract to Transfer all or any part of its Membership Interests, whether voluntarily or by operation of law, without in each instance obtaining the prior written consent of the Managers, which consent may be withheld in the Managers' sole discretion. Any attempt to Transfer Membership Interests without the required consent shall be void. The giving of consent in connection with one or more Transfers shall not limit or waive the need for such consent in connection with any other Transfers.

7.2. Securities Law Limitations. Notwithstanding anything in this Agreement, no Membership Interests may be Transferred except as permitted under the Securities Act and applicable state securities laws or exemption therefrom. Further, no Transfer of any Membership Interests or portions thereof shall be permitted without the Member first having presented to the Company or its counsel both (a) a written opinion of securities counsel, retained and compensated by the Member but reasonably satisfactory to counsel for the Company, describing the proposed Transfer and stating such counsel's opinion that the Transfer will not violate any of the registration provisions of the Securities Act, any applicable state securities law or the respective rules thereunder, and (b) such additional documents or written assurances as the Company may reasonably request to support the Member's request for Transfer.

7.3. Agreement with Transferees. In the event that, pursuant to the provisions of this Section 7, without regard as to whether any prior written consent of the majority of the non-transferring Members as set forth in Section 7.1 is required, any Member (as "Transferor") shall Transfer any Membership Interests to any Person (a "Transferee"), no such Transfer shall be made or shall be effective to make such Transferee a Member or entitle such Transferee to any benefits or rights hereunder until the proposed Transferee agrees in writing to (i) assume and be bound by all of the terms and provisions of this Agreement and all of the obligations of the transferring Member, and (ii) be subject to all the restrictions to which the transferring Member is subject under the terms of this Agreement and any further agreements with respect to the Company property or as contemplated by this Agreement to which the Transferor is then subject or is then required to be a party.

7.4. Automatic Redemption of Class B Interests. Immediately upon the later of (i) the date upon which aggregate distributions to the Class B Member under Section 4.5.a total the Class B Maximum or (ii) the calculation of the Special FC Distribution pursuant to Section 4.5.b and the payment of the Special FC Distribution, if any (such time being referred to herein as the "Class B Redemption Date"), the Class B Interests shall automatically be redeemed for no further consideration, without any further action by any party. From and after the Class B Redemption Date, the Class B Interests shall no longer be outstanding, the holder thereof shall no longer be a Member or hold any Membership Interest in the Company.

8. DISSOLUTION

8.1. Causes of Dissolution.

The Company shall be dissolved only in the event:

- a. That the death, removal, liquidation, dissolution, withdrawal or bankruptcy of the final Member (each a "Member's Withdrawal Event");
- b. That the Class A Members holding more than fifty percent (50%) of the Percentage Interests vote to terminate the Company;
- c. That there is a general assignment of the assets of the Company for the benefit of its creditors, or the adjudication of the Company as Bankrupt; or
- d. That the Company is dissolved by operation of law.

Notwithstanding anything in this Agreement to the contrary, at no time prior to the Class B Redemption Date shall the holders of Class A Interests cause or permit the Company to be dissolved without the prior consent of the holder of the Class B Interest, unless the holder of Class B Interests shall receive an amount in connection with such dissolution which, when added to all prior distributions pursuant to this Agreement, totals at least \$3,225,000.

8.2. Procedure in Dissolution and Liquidation.

- a. Upon dissolution of the Company pursuant to Section 8.1, the Management Board shall immediately commence to wind up the affairs of and shall proceed with reasonable promptness to liquidate the business of the Company.
- b. During the period of the winding up of the affairs of the Company, the rights and obligations of the Management Board set forth herein with respect to the management of the Company shall continue.
- c. The assets of the Company shall be applied or distributed in liquidation in the following order of priority:
 - (1) In payment of debts and obligations of the Company owed to third parties who are not Members;
 - (2) In payment of debts and obligations of the Company to any Member made in accordance with the terms of this Agreement;
 - (3) To the Members pro rata, in accordance with and to the extent of their respective positive Capital Account balances; and
 - (4) Any excess, 40% to the Class B Member, and 60% to the Class A Members in proportion to their respective Percentage Interests; provided that no amount shall be distributed to the Class B Interests if such dissolution occurs after the Class B Redemption Date, and provided further that no amount shall be distributed to the Class B Interests that would cause the amount distributed hereunder, together with the aggregate total of all prior distributions to the Class B Interest pursuant to all other provisions of this Agreement, to exceed \$3,225,000.

9. AMENDMENT 9.1. Amendment. This Agreement may not be amended, altered or modified except by a writing signed by the Class A Members holding more than fifty percent (50%) of the total number of Percentage Interests; provided, that no amendment to this Agreement that would have a material adverse affect on the rights of the Class B Member shall be effective without the prior consent of the Class B Member.

10. DISPUTES

10.1. Escalation. Any dispute or controversy between the Members arising out of this Agreement or any document, instrument or agreement executed and delivered pursuant hereto (a "Dispute"), shall first be submitted to non-binding mediation in the State of Delaware, or such other location as the parties may agree, under the mediation rules of the American Arbitration Association. Each party shall bear its own costs in connection with such mediation and shall bear one-half of the cost of the American Arbitration Association and the mediator.

10.2. Arbitration.

- a. In the event that a Dispute is not resolved by non-binding mediation pursuant to Section 10.1 above, such dispute shall be submitted to binding arbitration in the State of Delaware, or such other location as the parties may agree.
- b. Either party requesting arbitration shall serve a written demand for arbitration on the other party by registered or certified mail. The demand shall set forth a statement of the nature of the dispute, the amount involved and the remedies sought. Each party shall have the right to be represented by counsel and shall have the right only to such expedited discovery as the arbitrator may authorize upon a showing of good cause. Except as specifically provided herein, the arbitration shall be conducted by and in accordance with the commercial rules of the American Arbitration Association, and the arbitrator's ruling shall be in accordance with law and the terms of this Agreement. The arbitrator shall not have the power to amend this Agreement in any respect.
- c. No later than twenty (20) calendar days after a demand for arbitration is served, the Members shall jointly select and appoint a disinterested person to act as the arbitrator. In the event that the Members do not agree on the selection of an arbitrator, each Member shall select an arbitrator within ten (10) days after the date on which the Members do not agree on the selection of a sole arbitrator and the two arbitrators so selected shall select a third arbitrator within ten (10) days after the Members select their arbitrators; the provisions set forth herein regarding the single arbitrator shall apply to the three arbitrators so selected. Any arbitrator designated hereunder shall not now or in the three years preceding such arbitration be an employee, consultant, officer, director or shareholder of any party hereto or any Affiliate of any Member or have now or in the three years preceding such arbitration any business relationship with any Member or any Affiliate of any Member.
- d. No later than ten (10) calendar days after the arbitrator is appointed, the arbitrator shall schedule the arbitration for a hearing to commence on a mutually convenient date. The hearing shall commence no later than thirty (30) calendar days after the arbitrator is appointed and shall continue from day to day until completed.
- e. Each Member shall direct the arbitrator to use his or her best efforts to rule on each disputed issue within 30 days after the completion of the hearings described in paragraph (d) above. The determination of the arbitrator as to the resolution of any dispute shall be binding and conclusive upon all Members; provided, that the arbitrator may not award any punitive damages. All rulings of the arbitrator shall be in writing, shall set forth the basis for the decision and shall be delivered to the Members.
- f. The prevailing Member in any arbitration shall be entitled to an award of reasonable attorneys' fees incurred in connection with the arbitration and the disputed issues with respect thereto. The non-prevailing Member shall pay such fees, together with the fees of the arbitrator and the costs and expenses of the arbitration. For purposes hereof, a Member seeking payment of any amount in arbitration shall be deemed to be the prevailing Member if it is determined that such party is entitled to receive at least 75% of the payment initially claimed by it to be due to such Member

in such arbitration, and the Member from which such payment is sought shall be deemed to be the "prevailing Member" if the other Member is not so deemed to be the prevailing Member.

g. Judgment on any arbitration award may be entered by any court having jurisdiction over the parties and subject matter.

11. GENERAL PROVISIONS

11.1. Entire Agreement. This Agreement constitutes the entire agreement among the Members, and supersedes all agreements, representations, warranties, statements, promises and understandings, whether oral or written, with respect to the subject matter hereof. None of the Members shall be bound by nor charged with any oral or written agreements, representations, warranties, statements, promises or understandings with respect to the subject matter hereof not specifically set forth in this Agreement or the exhibits hereto.

11.2. Notices.

a. Communications given in connection with this Agreement shall be deemed adequately given only if in writing to the Person for whom such Communications are intended and sent by (1) personal delivery, (2) first class registered or certified mail, postage prepaid, return receipt requested, (3) facsimile, (4) nationally recognized overnight delivery service or (5) other means at least as fast and reliable as first class mail. The addresses and facsimile numbers required by this Agreement, unless changed pursuant to Section 12.2.c, are:

(1) To the Company or the Management Board:

c/o Franklin Covey Coaching, L.L.C.
2200 West Parkway Blvd. Second Floor
Salt Lake City, Utah 84119

(2) To Members:

As set forth on Exhibit A hereto.

b. All Communications shall be effective upon such Communication's Deemed Delivery only.

c. By giving to the Company at least ten (10) days' written notice thereof, Persons shall have the right from time to time and at any time during the term of this Agreement to change their respective addressee, address and/or facsimile number for notices, and each shall have the right to specify as its address and/or facsimile number for notices any other address and/or facsimile number.

11.3. Validity. In the event that any provision of this Agreement shall be held to be invalid or unenforceable, the same shall not affect in any respect whatsoever the validity or enforceability of the remainder of this Agreement.

11.4. Attorneys' Fees. Should any arbitration or litigation be commenced by the Company against any Member or between the Members hereto or their representatives, or should any Member institute any proceeding in a bankruptcy or similar court which has jurisdiction over any other Member hereto or any or all of such Member's property or assets concerning any provision of this Agreement or the rights and duties of any Person or entity in relation thereto, the party or parties prevailing in such litigation shall be entitled, in addition to such other relief as may be granted, to a reasonable sum as and for its or their attorneys' fees and court costs in such litigation which shall be determined by the court in such litigation or in a separate action brought for that purpose.

11.5. Survival of Rights. Except as provided herein to the contrary, this Agreement shall be binding upon and inure to the benefit of the Members signatory hereto, and their respective permitted successors and assigns.

11.6. No Strict Construction. The language used in this Agreement will be deemed to be the language chosen by the Members hereto to express their collective mutual intent. This Agreement shall be construed as if drafted jointly by the Members hereto, and no rule of strict construction will be applied against any Person.

11.7. Governing Law; Jurisdiction. The Agreement shall be governed by and construed exclusively in accordance with laws of the State of Delaware without regard to the conflicts of law principles thereof.

11.8. No Partition. No Member shall have the right to, and each Member hereby covenants that it will not, bring any action to dissolve, terminate or liquidate the Company, except as provided in this Agreement, and no Member at any time shall have the right to petition or to take any action to subject the Company assets or any part thereof to the authority of any court of bankruptcy, insolvency, receivership or similar proceeding, unless the same is approved by a vote of Members.

11.9. Waiver. No consent or waiver, express or implied, by a Member to or of any breach or default by another Member in the performance by such other Member of its obligations hereunder shall be deemed or construed to be a consent or waiver to or of any other breach or default in the performance by such other Member of the same or any other obligations of such other Member hereunder. A failure on the part of a Member to complain of any act or failure to act on the part of another Member or a failure to declare the other Member in default, irrespective of how long such failure continues, shall not constitute a waiver by such Member of its rights hereunder unless such default is cured prior to the date upon which the non-defaulting Member declares such default. The giving of consent by a Member in any one instance shall not constitute a waiver by such Member in any other instance and shall not limit or waive the necessity to obtain such Member's consent in any future instance.

11.10. Waiver of Notice. Whenever any notice whatever is required to be given to any Person under the provisions of this Agreement or under the provisions of the Articles or under the Company Act, a waiver thereof in writing, signed by the Person or Persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Attendance at any meeting shall constitute waiver of notice thereof unless the Person at the meeting objects to the holding of the meeting because proper notice was not given.

11.11. Remedies Not Exclusive. The rights and remedies of the Members and the Company hereunder shall not be mutually exclusive, i.e., the exercise of one or more of the provisions hereof shall not preclude the exercise of any other provisions hereof. Each of the Members confirms that damages at law will be an inadequate remedy for a breach or threatened breach of this Agreement and agrees that, in the event of a breach or threatened breach of any provision hereof, the respective rights and obligations hereunder shall be enforceable by specific performance, injunction or other equitable remedy, but nothing herein contained is intended to, nor shall it, limit or affect any rights at law or by statute or otherwise of any Member aggrieved as against another for a breach or threatened breach of any provision hereof, it being the intention of this Section to make clear the agreement of the Members that the respective rights and obligations of the Members hereunder shall be enforceable in equity as at law or otherwise.

11.12. Construction. All personal pronouns used in this Agreement, whether used in the masculine, feminine or neuter gender, shall include all other genders; and the singular shall include the plural and vice versa. Titles of Sections and Subsections are for convenience only, and neither limit nor amplify the provisions of this Agreement itself. References to Sections or Subsections shall refer to Sections or Subsections of this Agreement, unless otherwise indicated. The use herein of the word "including," when following any general statement, term or matter, shall not be construed to limit such statement, term or matter to the specific items or matters set forth immediately following such word or to similar items or matters, whether or not non-limiting language (such as "without limitation," or "but not limited to," or words of similar import) is used with reference thereto, but rather shall be deemed to refer to all other items or matters that could reasonably fall within the broadest possible scope of such general statement, term or matter. For the purposes of this Agreement, "and/or" means one or the other or both, or anyone or more or all, of the things or Persons in connection with which the conjunction is used.

11.13. Incorporation by Reference. Any exhibits referred to herein are those attached to this Agreement and shall be deemed to be incorporated as a part of this Agreement.

11.14. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which shall constitute one and the same agreement.

11.15. Further Assurances. Each party hereto agrees to do all acts and things, and to make, execute and deliver such written instruments, as shall from time to time be reasonably required to carry out the terms and provisions of this Agreement.

11.16. No Broker's Fees. No broker's fees or other such fees or commissions shall be payable by the Company with respect to this Agreement or any of the transactions pursuant to which the Members make their initial capital contributions to the Company, and each Member agrees to and shall indemnify and hold harmless the Company against and from any such obligations to which the Member has committed itself or the Company.

11.17. No Third Party Rights. This Agreement shall not (directly, indirectly, contingently or otherwise) confer or be construed as conferring any rights or benefits on any Person that is not a named Member, the holder directly or indirectly of Membership Interests or a permitted Transferee of a Member hereunder.

IN WITNESS WHEREOF, this Amended and Restated Limited Liability Company Agreement is executed as of the date first stated above.

AMS DIRECT, INC.,
a Delaware Corporation

FRANKLIN COVEY CO.,
a Utah Corporation

By: _____
Mark S. Holecek
Chairman

By: _____
Val John Christensen,
Executive Vice President

COACHING INVESTMENTS, LLC,
a Delaware limited partnership

By: _____
Mark S. Holecek
Manager

The following Persons hereby join in and agree to be bound (to the same extent as the Affiliate of such Person who is a Member) by Sections 3.1 and 3.2 of this Agreement:

FRANKLIN COVEY CLIENT SALES, INC.,
a Utah corporation

By: _____
Val John Christensen
Title: Vice President

AMERICAN MARKETING SYSTEMS, INC.,
an Illinois corporation

By: _____
Mark S. Holecek
Title: Chairman

EXHIBIT A

MEMBERS

THIS SCHEDULE MAY BE AMENDED FROM TIME TO TIME WITH THE REQUIRED CONSENT OF THE MEMBERS, IF ANY, TO REFLECT THE ADDITION OF NEW MEMBERS, THE ISSUANCE OF NEW MEMBERSHIP INTERESTS, THE SALE OR EXCHANGE OF MEMBERSHIP INTERESTS, OR OTHER SHIFTS OF MEMBERSHIP INTERESTS PROVIDED ALL SUCH CHANGES ARE PURSUANT TO THE AGREEMENT OR A CHANGE OF ADDRESS OR FACSIMILE NUMBER OF A PERSON FOR WHICH NOTICE WAS GIVEN TO THE COMPANY PURSUANT TO THIS AGREEMENT.

CLASS A MEMBERS

<u>Name and Address</u>	<u>Facsimile Number</u>	<u>Class</u>	<u>Percentage Interest</u>
AMS Direct, Inc. 7020 High Grove Boulevard Burr Ridge, Illinois 60521	(630) 382-3282	A	[51%]
Coaching Investments, LLC		A	<u>49%</u>
		Total	<u>100%</u>

CLASS B MEMBER

<u>Name and Address</u>	<u>Fax Number</u>	<u>Percentage of Class</u>
Franklin Covey Co. 2200 West Parkway Boulevard Salt Lake City, Utah 84119 (801) 975-1776	(801) 817-8723	100%

EXHIBIT B

Franklin Covey Programs

Current Programs

- o Zig Ziglar Corporation
- o Zig Ziglar Network
- o Denis Waitley Inc. / International Learning Technologies Inc.
- o Home Mortgage Network
- o Tom Hopkins International
- o Brian Tracy
- o Inc. Magazine, Inc. Consulting
- o National Association of Realtors
- o Personal Selling Power

Pending Contracts

- o Money / Time Inc. Brand Licensing
- o Norman Vincent Peale Foundation / Guideposts
- o Great Life Network
- o teachmetotrade.com

Franklin Covey and the Company hereby agree that, at any time after December 31, 2002, Franklin Covey may, upon prior written notice to the Company, direct the Company to exclude the financial results of any of the above programs from the calculation of Franklin Covey Program Income, if and only if the financial performance of such program is negatively impacting Franklin Covey Program Income, such exclusion to begin thirty (30) days after the Company's receipt of such notice and to be subject to completion of pre-existing coaching client commitments.

Krisak and Company
Management Consultants

Brian A. Krisak
President

Mr. Robert A. Whitman
Chairman and CEO
Franklin Covey Company, Inc.
2200 West Parkway Boulevard
Salt Lake City, UT 84119

Dear Bob,

Based upon our recent agreement, I am pleased to provide the proposal for management consulting services to Franklin Covey Company, Inc., as an independent contractor on a best efforts professional basis.

I agree to provide, and Franklin Covey Company, Inc. agrees to contract for, my professional services for a minimum average of eighty hours per month at the rate of \$250. per hour beginning September 3, 2001 and ending December 31, 2002.

My services, under your direction, will be to assist you and your team on projects that we mutually agree may provide significant value to Franklin Covey Company, Inc. Initially these include; research and advisory services on project "Cherry Tree"; organizational alignment and execution solutions development; and, a series of high-level client industry briefings.

Krisak and Company bills monthly on a professional fee plus expense basis. Expenses will be billed in addition to fees and will include: directly related travel; meals; lodging; stenographic; research; computer; telephone; and, postage expenses.

All work and information received will be confidential. Further, I agree to execute Franklin Covey Company, Inc.'s standard confidentiality and non-disclosure agreements.

Assuming this meets with your approval, please sign a copy of this agreement on the following page and return it to me at your earliest convenience.

I appreciate and look forward to the opportunity to continue working with you and your team.

Sincerely,

Brian A. Krisak

Krisak and Company 4400 emerson Ave. Dallas, TX 75205 (214) 219-1299 e-mail:krisakco@swbell.net

Accepts for Franklin Covey Company, Inc.:

/s/ ROBERT A. WHITMAN

Robert A. Whitman, Chairman and CEO

Date:

OCTOBER 3, 2001

Accepts for Krisak and Company:

/s/ BRIAN A. KRISAK

Brian A. Krisak, President

Date:

OCTOBER 3, 2001

November 25, 2002

Stephen M.R. Covey
2460 North Canyon Road
Provo, UT 84604

Dear Stephen:

This letter memorializes the agreement between you and Franklin Covey regarding your sabbatical leave of absence from Franklin Covey.

1. **Sabbatical Leave.** You are entitled to take a 12-month sabbatical leave of absence, commencing May 12, 2002, and ending May 10, 2003 (the "Sabbatical Leave"). Your employment will terminate upon commencement of your Sabbatical Leave. During your Sabbatical Leave, you will receive the gross amount of \$362,000 (your most recent \$268,000 regular salary, plus a bonus in the amount of \$94,000), less all applicable withholdings, payable in twenty-six (26) bi-weekly installments corresponding to Franklin Covey's regular payroll dates, commencing May 31, 2002.
2. **Severance.** In the event you do not resume your active employment with Franklin Covey at the conclusion of your Sabbatical Leave, whether by your choice or Franklin Covey's choice, you will be entitled to receive severance in the gross amount of \$543,000, less all applicable withholdings, payable in thirty-nine (39) bi-weekly installments corresponding to Franklin Covey's regular payroll dates, commencing on May 31, 2003 (the "Severance Period").
3. **COBRA During the Sabbatical Leave.** Commencing with your Sabbatical Leave, you will be eligible as a terminated employee to continue any health and dental benefits that were elected by you and are in place immediately prior to your Sabbatical Leave pursuant to COBRA. COBRA coverage is available for up to eighteen (18) months following the date of termination of your employment. If you elect COBRA coverage, Franklin Covey will pay an amount approximately equal to your monthly COBRA premium, including the administrative charge, for each month during your Sabbatical Leave. You are responsible to review all COBRA materials, elect coverage, and pay the applicable COBRA premium for as long as you are eligible and elect the coverage. COBRA information will be sent to your home address following the Effective Date of Termination. COBRA rates may change at any time. The foregoing COBRA premium reimbursement payment will increase or decrease to match any increase or decrease in the applicable COBRA rate.
4. **Medical Coverage Following COBRA Period.** In the event you do not resume your active employment with Franklin Covey at the conclusion of your Sabbatical Leave, (i) you will continue to be eligible for continued health care coverage pursuant to COBRA, under the terms of paragraph 3 above, for the remaining six months of the statutory COBRA period that commenced with your Sabbatical Leave, and (ii) commencing upon the expiration of the statutory COBRA period, and for the balance of the time you are receiving severance payments pursuant to paragraph 2, above, Franklin Covey shall reimburse you, within 30 days after receipt of your written request therefore (accompanied by documentation verifying your payment thereof), the premiums you pay to procure health insurance coverage comparable to the coverage you and your family received under COBRA.
5. **Office Equipment.** If you decide not to return to Franklin Covey at the conclusion of your sabbatical leave of absence, you agree to return to Franklin Covey, within 15 days after the date of written request, at Franklin Covey's expense, any computers, printers, fax machines, telephones or other business or office equipment or furniture in your possession that is owned by Franklin Covey.
6. **Noncompete; Nondisclosure; Nonsolicitation; Nondisparagement.** During the course of your employment with Franklin Covey, you have obtained information or knowledge, which is confidential or proprietary in nature relating to Franklin Covey's business, operations, services, products or equipment. To remain eligible to receive the payments and benefits described herein, you agree that for a period of two (2) years from the Effective Date of this Agreement, you will not; (i) exploit, disclose or assist others in exploiting, using or disclosing, to compete or to assist others to compete, directly or indirectly, with the business of Franklin Covey, any Franklin Covey proprietary information or proprietary documents including, without limitation: (a) market, business or alliance strategies or initiatives; (b) training services pricing and material pricing information or strategies; (c) new product or training seminar concepts, or ideas; (d) financial or information technology initiatives, status or expectations; (e) market research results; (f) marketing and product strategies; (g) customer lists; and (h) vendor and supplier lists; or (ii) solicit to work in any field or industry or otherwise induce any employee of Franklin Covey to terminate his/her employment with Franklin Covey for any reason. Further, you agree that for a period of two (2) years, you will not make any statements to third parties that disparage, demean, or criticize Franklin Covey officers, management, employees, business practices, strategies, products, or services. The foregoing shall not prevent you from making truthful statements under oath as a witness in a proceeding by a court of competent jurisdiction or administrative agency. Notwithstanding the foregoing provisions of this Paragraph 6, nothing herein shall prevent you from doing business and competing in the training/learning industry, provided that (1) you do not disclose Franklin Covey proprietary information or proprietary documents as stated above, and (2) for a period of two (2) years from the Effective Date of this Agreement, you do not personally work for or personally do business with the following entities: Electronic Data Systems, Shea Homes, Ritz-Carlton, Comcast, Campbell Soup and Avon. Notwithstanding the foregoing provisions of this Paragraph 6, any intellectual property that you develop during your Sabbatical Leave or thereafter (except when employed by Franklin Covey), including but not limited to books, training materials, articles and papers ("your intellectual property"), shall be owned by you, provided that your intellectual property was not developed utilizing Franklin Covey facilities and personnel. Provided you give appropriate attribution to Stephen R. Covey and Franklin Covey, you are expressly permitted to reference, expand upon or further develop in books, articles and other published media (including audio and video tapes) any distinct principle, concept or idea contained in works developed partially or wholly by Stephen R. Covey (including "The 7 Habits of Highly Effective People") that are owned by or licensed to Franklin Covey ("Your Works"). You agree to negotiate in good faith to grant to Franklin Covey the exclusive right to market and deliver any training curricula based upon Your Works; provided, however, that if you and Franklin Covey are unable, each acting in good faith, to reach agreement on such terms, you shall have the exclusive right to develop, market and deliver training curricula based upon Your Works.
7. **General Release.** For and in consideration of the payments and benefits described herein, the receipt and sufficiency of which you hereby acknowledge, on your own behalf, and on behalf of your heirs and assigns, and all persons claiming under you, you hereby fully and forever unconditionally release and discharge Franklin Covey Co., all of its affiliated and related corporations, their predecessors, successors and assigns, together with their divisions and departments, and all past or present officers, directors, employees, insurers and agents of any of them (hereinafter referred to collectively as "Releasees") of and from, and you covenant not to sue or assert against Releasees, for any purpose, all claims, administrative complaints, demands, actions and causes of action, of every kind and nature whatsoever, whether at law or in equity, and both negligent and intentional, arising from or in any way related to your employment by Franklin Covey, based in whole or in part upon any act or omission occurring on or before the date of this general release, without regard to your present actual knowledge of the act or omission, which you may now have, or which you, or any person acting on your behalf may at any future time have or claim to have, including specifically, but not by way of limitation, matters which may arise at common law or under federal, state or local laws, such as the Fair Labor Standards Act, the Employee Retirement Income Security Act, the National Labor Relations Act, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Older Workers Protection Act, the Rehabilitation Act of 1973, the American With Disabilities Act, and the Equal Pay Act. You warrant that you have not assigned or transferred any right or claim described in this general release. You expressly assume all risk that the facts and law concerning this general release may be other than as presently known to you. You acknowledge that, in signing this general release, you are not relying on any information provided to you by Releasees or upon Releasees to provide information not known to you.
8. **Acknowledgment.** You acknowledge that you have read this agreement, understand its terms, and have had an opportunity to have answered to your satisfaction any questions concerning the terms hereof. You execute this agreement voluntarily and of your own free will and choice, after having been advised to seek your own legal counsel, without threat, coercion or duress, intending to be legally bound.
9. **Remedies.** In addition to any other legal or equitable remedies Franklin Covey may have, all unpaid payments and benefits described in this agreement shall be immediately canceled, terminated and forfeited in their entirety in the event you violate any of the provisions hereof.
10. **Governing Law.** The laws of the State of Utah shall govern this agreement. This is the entire agreement between the parties. No other promises or agreements have been made to you except as stated in this agreement. This agreement may not be changed or modified except by a written document signed by the parties.
11. **Entire Agreement.** This Agreement embodies the entire agreement and understanding of the parties hereto with respect to the subject matter contained herein. There are no restrictions, promises, representations, warranties, covenants, or undertakings between the parties regarding such subject matter other than those expressly set forth or referred to herein. This Agreement supersedes all other prior written and verbal agreements and understandings between the parties with respect to such subject matter.

The Effective Date of this Agreement is May 12, 2002.

Please signify your agreement with the foregoing by signing both original letters where indicated below and returning one original to me.

Sincerely,

/s/ ROBERT A. WHITMAN

Robert A. Whitman
Chief Executive Officer

ACCEPTED AND AGREED
This 25th day of November, 2002.

/s/ STEPHEN M.R. COVEY
Stephen M. R. Covey

FRANKLIN COVEY CO.**Subsidiaries****Domestic:**

Franklin Covey Printing, Inc. (a Utah corporation)
Franklin Development Corporation (a Utah corporation)
Franklin Covey Asia, Inc. (a Utah corporation)
Franklin Covey Mexico, Inc. (a Utah corporation)
Franklin Covey Brazil, Inc. (a Utah corporation)
Franklin Covey Argentina, Inc. (a Utah corporation)
Franklin Covey International, Inc. (a Utah corporation)
Franklin Covey Travel, Inc. (a Utah corporation)
Franklin Covey Catalog Sales, Inc. (a Utah corporation)
Franklin Covey Client Sales, Inc. (a Utah corporation)
Franklin Covey Product Sales, Inc. (a Utah corporation)
Franklin Covey Services, L.L.C. (a Utah limited liability company)
Franklin Covey Marketing, Ltd. (a Utah limited liability company)
McCulley Cuppan, L.L.C. (a Utah limited liability company)
Franklin Planner.com, Inc. (a Utah corporation)
Franklin Covey Coaching, L.L.C. (a Delaware limited liability company)

International:

Franklin Covey Canada, Ltd. (a Canada corporation)
Franklin Covey de Mexico S. de R.L. de C.V. (Mexico)
Franklin Covey Europe, Ltd. (England, Wales)
Franklin Covey Proprietary Limited (Queensland Australia)
Franklin Covey Middle East W.L.L. (Bahrain)
Franklin Covey Japan Co. Ltd. (Japan)
Franklin Covey Brasil Ltda. (Brazil)
Franklin Covey Germany G.m.b.H. (Germany)
Franklin Covey Netherlands B.V. (The Netherlands)
Franklin Covey Cayman Islands, Ltd. (British West Indies)
Franklin Covey France S.A.R.L. (France)
Franklin Covey Ireland Limited (Ireland)

Independent Auditors' Consent

The Board of Directors and Shareholders
Franklin Covey Co.:

We consent to the incorporation by reference in registration statements (Nos. 333-38172, 333-34498, 333-89541, 033-73624, and 033-51314) of our reports dated November 19, 2002 with respect to the consolidated balance sheets of Franklin Covey Co. as of August 31, 2002 and 2001, and the related consolidated statements of operations and comprehensive loss, shareholders' equity, and cash flows for each of the years in the three year period ended August 31, 2002, and the related financial statement schedule, which reports appear in the Annual Report on Form 10-K of Franklin Covey Co. for the year ended August 31, 2002.

/s/ KPMG LLP

Salt Lake City, Utah
November 25, 2002

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the following certifications were made to accompany the Form 10-K

**CERTIFICATION OF
CHIEF EXECUTIVE OFFICER
OF FRANKLIN COVEY
PURSUANT TO 18 U.S.C. § 1350**

Pursuant to 18 U.S.C. § 1350 and in connection with the accompanying report on Form 10-K for the period ended August 31, 2002 that is being filed concurrently with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of Franklin Covey Co. (the "Company") hereby certifies that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 26, 2002,

/s/ ROBERT A. WHITMAN

Robert A. Whitman
Chief Executive Officer

The above certification is furnished solely to accompany the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) and is not being filed as part of the Form 10-K or as a separate disclosure statement.

**CERTIFICATION OF
CHIEF FINANCIAL OFFICER
OF FRANKLIN COVEY
PURSUANT TO 18 U.S.C. § 1350**

Pursuant to 18 U.S.C. § 1350 and in connection with the accompanying report on Form 10-K for the period ended August 31, 2002 that is being filed concurrently with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of Franklin Covey Co. (the "Company") hereby certifies that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 26, 2002,

/s/ STEPHEN D. YOUNG

Stephen D. Young
Chief Financial Officer

The above certification is furnished solely to accompany the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) and is not being filed as part of the Form 10-K or as a separate disclosure statement.

Independent Auditors' Report on Consolidated Financial Statement Schedule

The Board of Directors and Shareholders
Franklin Covey Co.:

Under date of November 19, 2002, we reported on the consolidated balance sheets of Franklin Covey Co. and subsidiaries as of August 31, 2002 and 2001, and the related consolidated statements of operations and comprehensive loss, shareholders' equity, and cash flows for each of the years in the three-year period ended August 31, 2002, which are included in the Franklin Covey Co.'s Annual Report on Form 10-K. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule included in the Annual Report on Form 10-K of Franklin Covey Co. The consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statement schedule based on our audits.

In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Notes 1 and 4 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", in the year ended August 31, 2002.

/s/ KPMG LLP

Salt Lake City, Utah
November 19, 2002

FRANKLIN COVEY CO.
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
For the Three Years Ended August 31, 2002 for Continuing Operations

(Dollars in Thousands)				
Column A	Column B	Column C	Column D	Column E
Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
<i>Year ended August 31, 2000:</i>				
Allowance for doubtful accounts	\$ 3,897	\$ 1,855	\$ (2,606) ¹	\$ 3,146
<i>Year ended August 31, 2001:</i>				
Allowance for doubtful accounts	\$ 3,146	\$ 2,255	\$ (3,602) ¹	\$ 1,799
Reserve for losses on management stock loans		1,052		1,052
	\$ 3,146	\$ 3,307	\$ (3,602)	\$ 2,851
<i>Year ended August 31, 2002:</i>				
Allowance for doubtful accounts	\$ 1,799	\$ 1,680	\$ (1,677) ¹	\$ 1,802
Reserve for losses on management stock loans	1,052	24,775		25,827
	\$ 2,851	\$ 26,455	\$ (1,677)	\$ 27,629

¹ Represents a write-off of accounts deemed uncollectible