SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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, 2001
	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 1, 2001, based upon the closing sale price of the Common Stock of $3.49 per share on that date, was approximately $49,486,933. 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 1, 2001, the Registrant had 19,881,531 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 11, 2002, are incorporated by reference in Part III of this Form 10-K.

INDEX TO FORM 10–K

PART I

Item 1. Business

General

Franklin Covey Co. (the "Company" or "Franklin Covey") is an international learning and performance solutions company dedicated to helping organizations, individuals and students become measurably more effective. To achieve that goal, the Company provides training and education programs, consulting services, educational materials, publications, assessment and measurement tools, implementation processes and application tools. Franklin Covey focuses its efforts on providing solutions in five main areas: Productivity, Leadership, Communications, Education and Sales. The Company is organized to focus it efforts to serve three customer segments; organizations, individual consumers and schools. The Company also measures the impact of training investments. Effectiveness solutions are delivered through Company owned retail stores, catalog operations, training seminars, computer-based training and planning services, its own Internet sites, clients' and partners' Intranet sites, sales to educational institutions and through consulting services. To facilitate implementation of the principles it teaches, the Company produces and/or markets a number of tools and curricula such as the Franklin Planner®, PALM® and other handheld electronic organizers, wireless communication organizers, Agendas, What Matters Most and 7 Habits of Highly Effective People training seminars, CD ROM's, Personal Coaching and custom projects.

One of the Company's mainstay staple tools that assists clients in implementing effectiveness training is the Franklin Planning System. The Franklin Planning System typically implements training and learning by using tools such as the Franklin Planner. The original Franklin 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 Franklin Planner can also be purchased in one–page per day or two–page per week versions. The Company offers various forms and accessories that allow users to expand and customize their Franklin Planner. A significant percentage of the users of the original Franklin Planner continue to purchase a renewal planner each year, creating substantial recurring sales. The Company has also made the Franklin Planning System available in desktop software and as an add-on to handheld organizers, such as the popular PALM® Computing organizer, Compaq's® iPAQ™ Pocket PC®, Handspring's™ Visor® and wireless communication and planning devices. The Company also provides an extension to Microsoft Outlook® that incorporates Franklin Planning productivity principles into the Outlook calendar system. An online version of the Franklin Planner is also available at www.franklinplanner.com that synchronizes voicemail, email, note taking and calendaring into both the paper-based system and the electronic handheld and desktop versions of the system. Franklin Covey markets the Franklin 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 principles taught in the Company's 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 and *The 7 Habits of Highly Effective Teens*, by Sean Covey. 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 the Company's own catalog, its e-commerce web site, www.franklincovey.com, and its more than 160 retail stores.

Franklin Covey provides its effectiveness solutions to organizations in business, industry, government entities, communities, to schools and educational institutions, and to individuals. The Company sells its services to organizations and schools through its own direct sales force. The Company delivers its training services to organizations, schools and individuals in one of four ways:

1. Franklin Covey consultants provide on–site consulting or training classes for organizations and schools. In these situations, the Franklin Covey consultant can tailor the curriculum to the client's specific business and objectives.

2. The Company also conducts 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 the Company's catalog, e-commerce web site, retail stores, and by direct mail.

3. The Company's programs are also designed to be facilitated by licensed professional trainers and managers in client organizations, reducing dependence on the Company's professional presenters, and creating continuing revenue through royalties and as participant materials are purchased for trainees by these facilitators.

4. Franklin Covey also offers training modules known as, *Productivity in the Digital Age Learning Library*. These learning modules are delivered in five ways: computer-based, on-line, in booklet form, audio or live in training centers installed in certain Company retail stores. They are designed for individuals and to aid organizations in delivering Franklin Covey effectiveness principles to individuals throughout their organization. The computer-based training provides on-demand modularized learning and ties with the Company's personal productivity systems which are integrated across various platforms and mediums.

In fiscal 2001, the Company provided products and services to 83 of the Fortune 100 and more than 75 percent of the Fortune 500 companies. The Company also provides its 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 600,000 individuals were trained during the year ended August 31, 2001.

The Company also provides products, consulting and training services internationally, either through directly operated offices, or through licensed providers. At August 31, 2001, Franklin Covey had direct operations in Canada, Japan, Australia, Mexico, Brazil and the United Kingdom. The Company also had licensed operations in 31 countries.

Recent Acquisitions and Divestitures

In January 1999, the Company acquired the assets of Khalsa Associates, a leading sales training company. In July 1999, Microsoft® announced that it had signed an agreement with Franklin Covey to train its worldwide sales force and its 21,000 sales channel partners utilizing Franklin Covey's unique consultative sales training program.

In September 1999, the Company acquired the assets of the Professional Resources Organization (the Jack Phillips Group), a leading measurement assessment firm specializing in measuring the impact and return on investment in training and consulting.

In December 1999, Franklin Covey acquired a majority interest in Daytracker.com, an on-line planning company. The Daytracker.com web site has been the basis for the current www.franklincoveyplanner.com planning web site the Company offers to its customers.

In February 2000, Franklin Covey sold assets of the commercial printing division of Publishers Press to Mountain States Bindery of Salt Lake City, Utah. The Company maintained the printing capabilities that print the Franklin Planner and associated products.

In September 2000, the Company contributed the assets of Personal Coaching to a new joint-venture entity called Franklin Covey Coaching, LLC. Franklin Covey owns 50 percent of the new entity and will participate proportionately in the revenues and earnings of the new partnership. The other 50 percent is owned by AMS Direct, a major client of Franklin Covey Coaching, LLC.

In November 2001, the Company signed an agreement to sell the stock of Premier School Agendas, a Bellingham, Washington based wholly owned subsidiary, for approximately $165 million to School Specialty (NASDAQ: SCHS) of Greenville, Wisconsin. The transaction is subject to regulatory approval and other customary closing conditions. The Company expects the sale to be completed during the second quarter of fiscal year 2002.

Unless the context requires otherwise, all references to the "Company" or to "Franklin Covey" 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.

Franklin Covey Products

An important principle taught in Franklin Covey productivity training is to have only one personal productivity system and to have all of ones' information in that one system. Based upon that belief for effective time management, the Franklin Planner has been developed as one of the basic tools for implementing the principles of Franklin Covey's time management system. The original Franklin Planner consists of a paper-based Franklin Covey planning system, a binder in which to carry it, various planning aids, weekly, monthly and annual calendars as well as personal management sections. Franklin Covey offers a broad line of renewal planners, forms and binders for the Franklin Planner, which are available in various sizes and styles. For those who lead with technology productivity systems, Franklin Covey also offers a variety of electronic solutions incorporating the same principles as the original Franklin Planner.

Paper Planners. Paper planner renewals are available for the Franklin Planner in five sizes and various 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. Annual Renewal Planners range in price from $15.00 to $47.00. The Master Pack, which includes personal management tabs and pages, a guide to using the planner, a pagefinder and weekly compass cards completes a Franklin Planner. The Master Pack price ranges from $6.75 to $8.25.

Electronic Solutions. The Company also offers its time and life management methodology within a complete Personal Information Management ("PIM") system through the Franklin Planner Software program. This system can be used in conjunction with the paper-based Franklin Planner, electronic handheld organizers or used as a stand-alone planning and information management system. The Franklin Planner Software permits users to generate and print data on Franklin Covey paper that can be inserted directly into the Franklin Planner. The program operates in the Windows® 95, 98, 2000 and NT operating systems. Franklin Covey offers Franklin Planner Software at a retail price of $99.95, which includes all necessary software, related tutorials and reference manuals. The Company offers the software through nationwide retail software stores, as well as in its own retail stores, catalog, and e-commerce Internet site.

The Company also offers a version of its Franklin Planner Software that is designed to operate as an extension to Microsoft's Outlook(R) software. This is intended especially for companies that have already standardized on Microsoft(R)for group scheduling, but wish to make the Franklin 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 Franklin Planner Software extension model will be expanded to other platforms.

Franklin Covey is also an OEM provider of the PALM® Computing organizer that includes the Franklin Planner Software when sold through Franklin Covey channels. The PALM® has become another successful planning tool offered by the Company through all of its channels. The Company has introduced products that can add paper-based planning to the electronic planner as well as binders and carrying cases specific to the PALM®. The Company also offers other electronic organizers with the Franklin Planner software such as the iPAQ™ Pocket PC from Compaq® and the Visor™ by Handspring®.

Franklin Covey also offers planning capabilities over the Internet at www.franklinplanner.com. The Company's Web site allows customers to synchronize with other planning software as well as handheld organizers. Like the Franklin Planner Software, it also allows users to print planner pages from the Web site to fit in the various Franklin Planner sizes. The Web version allows users to pull information from various other Internet sites to customize the site to the customer's interests.

The Company also provides a series of products that are part of its *Productivity in the Digital Age* initiative. This initiative includes both tools and training designed to measurably increase individual and organizational effectiveness. These products include learning modules designed to deliver Franklin Covey effectiveness principles to individuals and organizations, including interactive computer-based or on-line training, live training as well as audio and printed materials. *Productivity in the Digital Age* effectiveness tools include PDA's, desktop applications, on-line tools and software all designed to synchronize information across platforms and systems.

Agendas. Franklin Covey markets through its Premier Agendas division agendas to schools and school districts in order to help teachers and students enhance the learning process. Premier sold more than 20 million agendas in fiscal 2001, mostly in the United States and Canada. An agenda consists of a wire-bound notebook with dated pages to help the student keep track of assignments and due dates, and to encourage regular communication between the student, the parents and the teacher. Most agendas are customized to include the individual school's rules, regulations, administrators and scheduled events. Franklin Planner Agendas are also sold in the Company's retail stores, e-commerce website and through the catalog for $7.95. In November 2001, the Company signed an agreement to sell the stock of Premier Agendas to School Specialty for approximately $165 million. Pursuant to a license from Franklin Covey, Premier will continue to expose over 20 million K-12 students to Franklin Covey's world-renowned *7 Habits* content. In addition, School Specialty will feature select Franklin Covey products in its catalogs. Franklin Covey will retain its educator leadership and effectiveness training portion of Premier's business. The transaction is subject to regulatory approval and other customary closing conditions. The Company expects the sale to be completed during the second quarter of fiscal year 2002.

Binders. Franklin Covey offers binders and electronic organizer accessories (briefcases, portfolios, wallets/purses, etc.) in a variety of materials, styles and Franklin 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. The Company's binder products range in price from $15.00 to $265.00.

Personal Development and Accessory Products. To supplement its principal products, Franklin Covey offers a number of accessories and related products, including books, videotapes and audiocassettes focused on time management, leadership, personal improvement and other topics. The Company also markets 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. The Company offers numerous accessory forms through its Forms Wizard software, which allows customization of forms, including check registers, spread sheets, stationery, mileage logs, maps, menu planners, shopping lists and other information management and project planning forms. The Company's accessory products and forms are generally available in the Franklin Planner sizes.

Training, Facilitation and Consulting Services

Franklin Covey's training, facilitation and consulting services are marketed and delivered in the United States by the Company's Organizational Solutions Group (OSG), which consists of talented consultants, selected through a competitive and demanding process, and highly qualified sales professionals.

Franklin Covey currently employs 101 training consultants in major metropolitan areas of the United States with an additional 43 training consultants outside of the United States. Training consultants are selected from a large number of experienced applicants. These consultants generally have several years of training and/or consulting experience and 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. Franklin Covey believes that the caliber of its training consultants has helped build its reputation of providing high quality seminars. The Company's OSG can also help organizational clients diagnose inefficiencies in their organization and design the core components of a client's organizational solutions. The efforts of the consultants are enhanced by several proprietary consulting tools the Company has designed for their use: Organizational Health Assessment™ ("OHA"), used to assess client needs; the Organizational Effectiveness Cycle™ ("OE-Cycle™"), utilized for organizational diagnosis and re-design; and the Principle-Centered Organizational Change Process™ ("PCOC Process™"), a rigorous methodology for organizational change management.

Franklin Covey's OSG is organized in five 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 continuously with client service teams, working with them to develop lasting client impact and ongoing business opportunities.

Training and Education Programs. Franklin Covey offers a range of training programs designed to significantly and measurably improve the effectiveness of individuals and organizations. The Company's workshops are oriented to address each of the four levels of leadership needs: personal, interpersonal, managerial and organizational. In addition, the Company believes each of its workshops provides a stimulating and behavior changing experience which frequently generates additional business. During fiscal year 2001, more than 600,000 individuals were trained using the Company's curriculum in its single and multiple–day workshops and seminars.

Franklin Covey's single–day *What Matters Most* workshop competes in the time management industry. This time management seminar is conducted by the Company's training consultants for employees of clients and in public seminars throughout the United States and in many foreign countries. The Company offers a number of other single–day seminars and workshops including Presentation Advantage™, a seminar helping individuals and organizations make more effective business presentations; Writing Advantage®, a seminar that teaches effective business writing and communication skills; and Project Management™, a seminar designed to help individuals and organizations map and organize complex projects. The Company's training consultants conduct these seminars and workshops for employees of institutional clients and public seminar participants.

Franklin Covey also delivers multiple-day workshops, primarily in the Leadership area. Included in these offerings is its 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 Company's content and application tools are delivered deeper into the organization. Additionally, a three–day *4 Roles of Leadership* course is offered, which focuses on the managerial aspects of client needs. Franklin Covey Leadership Week, which management believes is one of the premier leadership programs in the United States, consists of a five–day session focused on materials from Franklin Covey's *The 7 Habits of Highly Effective People* and *The 4 Roles of Leadership* courses. Franklin Covey Leadership Week is reserved for executive level management. As a part of the week's agenda, executive participants design strategies for long-term implementation of the Company's principles and content within their organizations.

In addition to providing consultants and presenters, Franklin Covey also trains and certifies client facilitators to teach selected Company workshops within the client's organization. Franklin Covey believes client–facilitated training is important to its fundamental strategy to create recurring client revenue streams. After having been certified, clients can purchase manuals, profiles, planners and other products to conduct training workshops within their organization, generally without the Company repeating the sales process. This creates an annuity–type business, providing recurring revenue, especially when combined with the fact that curriculum content in one course leads the client to additional participation in other Company courses. Since 1988, Franklin Covey has trained more than 19,000 client facilitators. Client facilitators are certified only after graduating from one of Franklin Covey's certification workshops and completing post–course certification requirements.

Franklin Covey regularly sponsors 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 Franklin Covey clients, the level of promotion and resulting demand, and generally ranges from semi–monthly to quarterly. Smaller institutional clients often utilize the public seminars to train their employees.

In fiscal 1996, Franklin Covey introduced the Franklin Covey Leadership Library series of video workshops. The Franklin Covey Leadership Library is a series of stand-alone video workshops that can be used in informal settings as discussion starters, in staff meetings or as part of an in-house leadership development program.

The Company also offers a series of learning modules that are part of its *Productivity in the Digital Age* initiative. This initiative includes both tools and training designed to measurably increase individual and organizational effectiveness. These products include learning modules designed to deliver Franklin Covey effectiveness principles to individuals and organizations, including interactive computer-based or on-line training, live training as well as audio and printed materials. *Productivity in the Digital Age* effectiveness tools include PDA's, desktop applications, on-line tools and software all designed to synchronize information across various platforms and systems.

Personal Coaching. Franklin Covey offers post-seminar training in the form of personal coaching through a joint-venture 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 the Company's 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:

	2001	2000	1999
Retail Stores	$151,943	$163,305	$140,850
Catalog / e-commerce	90,450	110,543	102,335
Organizational Solutions Group...	84,723	85,977	77,496
Educational.	91,037	85,348	70,798

International	51,851	50,870	50,611
Other	55,329	106,942	129,506
Total	$525,333	$602,985	$571,596

Franklin Covey uses retail stores, catalogs, its own Web site, organizational and educational sales forces and other distribution channels to market its products to organizations, schools and individuals domestically and internationally.

Retail Stores. Beginning in late 1985, Franklin Covey began opening retail stores in areas of high client density. The initial stores were generally located in lower traffic destination locations. The Company has since adopted a strategy of locating retail stores in high-traffic retail centers, primarily large shopping malls, to serve existing clients and to attract increased numbers of walk-in clients. Franklin Covey believes that higher costs associated with locating retail stores in these centers have been offset by increased sales from these locations. Franklin Covey's retail stores, which average approximately 2,000 square feet, are stocked almost entirely with Franklin Covey products. The Company's retail stores strategy focuses on providing exceptional client service at the point of sale. Franklin Covey believes this approach increases client satisfaction as well as the frequency and volume of purchases. At August 31, 2001, Franklin Covey had 164 domestic retail stores located in 37 states and the District of Columbia and 10 international stores.

Franklin Covey attracts existing clients to its retail stores by informing them of store openings through direct mail advertising. The Company believes that its retail stores encourage walk–in traffic and impulse buying and that store clients are a source of participants for Franklin Covey's public seminars. The stores have also provided the Company with an opportunity to assess client reaction to new product offerings and to test-market new products. Portions of Franklin Covey's *Productivity In The Digital Age* training modules are taught within the stores. Some of the retail stores have been remodeled to accommodate small groups taking these modularized training programs.

Franklin Covey believes that its retail stores have a high-end image consistent with its marketing strategy. Franklin Covey's products are generally grouped in sections supporting the different sizes of the Franklin Planner. 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. Franklin Covey employees have been trained to use the original Franklin Planner, as well as its various electronic versions, enabling them to assist and advise clients in selection and use of the Company's products. During peak periods, additional personnel are added to promote prompt and courteous client service.

Catalog/e-Commerce. Franklin Covey periodically mails catalogs to its clients, including a reference 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, entered into a long-term contract with EDS to provide a large part of its customer relationship management (CRM) in servicing its Catalog and e-Commerce customers. Franklin Covey uses 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 350 customer service representatives has the authority to immediately solve any client service problem.

The integrated CRM system provided by EDS allows orders from 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. Franklin Covey believes that its order entry system helps assure client satisfaction through both rapid delivery and accurate order shipment.

Organizational Solutions Group. Franklin Covey's sales professionals market the Company's training, consulting and measurement services to institutional clients and public seminar clients.

Franklin Covey employs 135 sales professionals located in five major metropolitan areas throughout the United States who sell training services to institutional clients. Franklin Covey employs an additional 69 sales professionals outside of the United States in 8 countries. Sales professionals must have significant selling experience prior to employment by the Company and are trained and evaluated at Franklin Covey and in their respective sales territories during the first six months of employment. Sales professionals typically call upon persons responsible for corporate employee training, such as corporate training directors or human resource officers. Sales professionals work closely with training consultants in their territories to schedule and tailor seminars and workshops to meet specific objectives of institutional clients.

Franklin Covey also employs 101 training consultants throughout the United States who present institutional and public seminars in their respective territories and an additional 43 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 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 Franklin Covey 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 Franklin Covey's seminars and products. These referrals are generally used as prospects for Franklin Covey's sales professionals.

Educational Sales. The Company markets through its Premier Agendas division agendas to schools and school districts in order to help teachers and students enhance the learning process. Premier sold more than 20 million agendas in fiscal 2001, mostly in the United States and Canada. An agenda consists of a wire-bound notebook with dated pages to help the student keep track of assignments and due dates, and to encourage regular communication among the student, the parents and the teacher. Most agendas are customized to include the individual school's rules, regulations, administrators and scheduled events. Franklin Covey also markets through its Education division its Student Achievement Workshop. Based on upon the *7 Habits of Highly Effective Teens* book, it helps to teach students, teachers, and parents better studying skills, learning habits, and interpersonal development. In November 2001, the Company signed an agreement to sell the stock of Premier Agendas to School Specialty for approximately $165 million. Pursuant to a license from Franklin Covey, Premier will continue to expose over 20 million K-12 students to Franklin Covey's world-renowned *7 Habits* content. In addition, School Specialty will feature select Franklin Covey products in its catalogs. Franklin Covey will retain its educator leadership and effectiveness training portion of Premier's business. The transaction is subject to regulatory approval and other customary closing conditions. The Company expects the sale to be completed during the second quarter of fiscal year 2002.

International Sales. The Company provides products, training and printing services internationally through Company-owned and licensed operations. Franklin Covey has Company-owned operations and offices in Australia, Brazil, Belgium, Canada, Japan, Mexico and the United Kingdom. Mainland Europe is represented by an affiliate and agent network. The Company also has licensed operations in Bermuda, Indonesia, Ireland, Korea, Malaysia, India, Egypt, Lebanon, Saudi Arabia, Turkey, UAE, Israel, Estonia, Nigeria, Philippines, Singapore, China, Hong Kong, Taiwan, Thailand, South Africa, Chile, Panama, Argentina, Colombia, Uruguay, Bahamas, Ecuador, Puerto Rico, Venezuela and Trinidad/Tobago. Franklin Covey operates retail operations in Australia, Canada, Japan, Hong Kong, Singapore, Taiwan and Mexico. Franklin Covey's 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 of the Company generated $51.9 million in revenue in the year ended August 31, 2001. After grossing up royalties from licensed operations to their actual sales level, total sales generated in the international operations were $71.7 million.

Other Channels. TheCompany has an alliance with the At-A-Glance group to sell its 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 in turn sell office products through catalog order entry systems to businesses and organizations. The Company signed an agreement to have At-A-Glance represent a selected Franklin Planner product line through this office products channel. The Company believes that additional revenues have more than offset the anticipated lower margins from selling product through this channel. Through the acquisition of Publishers Press in December 1994, Franklin Covey acquired greater control over printing of the materials for the Franklin Planner and of other related products. Effective February 28, 2000, the Company sold the commercial printing services of Publishers Press while maintaining its in-house printing capabilities. Publishers Press provided book and commercial printing to clients in the western United States. The commercial printing operations accounted for $17.7 million of other sales in fiscal year 2000 and no revenues during fiscal 2001.

Strategic Distribution Alliances

Franklin Covey has pursued an aggressive strategy to create strategic alliances with innovative and respected organizations in an effort to develop effective distribution of its products and services. The principal distribution alliances currently maintained by Franklin Covey are: Simon & Schuster and Saint Martin's Press in publishing books for the Company; Wyncom 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; At-A-Glance to market and distribute selected Franklin Planners and accessories through catalog office supply channels; Franklin Covey Coaching, LLC, a partnership with American Marketing Systems to deliver personal coaching to clients; and PALM® Computing to serve as the official training organization for their PALM® Computing products.

In fiscal 2001, Franklin Covey and EDS signed a joint go-to-market strategy agreement. In the agreement Franklin Covey and EDS will develop, co-brand and market online versions of Franklin Covey's learning and performance solutions, including *The 7 Habits of Highly Effective People*® and the Franklin Covey Planning System® for time and information management, to their respective clients. This joint go-to-market strategy will provide new, innovative ways for Franklin Covey and EDS clients to access Franklin Covey's learning and performance intellectual property, and will increase accessibility to this capital through EDS' Digital Learning technology, hosting and learning management offerings.

Clients

Franklin Covey has developed a broad base of institutional and individual clients. The Company has more than 8,000 institutional clients consisting of corporations, governmental agencies, educational institutions and other organizations. The Company believes its products, workshops and seminars encourage strong client loyalty. Employees in each of Franklin Covey's 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. Franklin Covey estimates that the industry represents more than $6 billion in annual revenues and that the largest traditional organizational training firms have sales in the $200 million range. Based upon Franklin Covey's fiscal 2001 domestic training and education sales of approximately $228 million, the Company believes it is 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.

Consulting. Franklin Covey's PCOC change management methodology, which it initiated in 1996, is directly linked to organization and cultural change. Effective change is achieved through creating a principle-centered foundation within an organization and by aligning systems and structures with that foundation. Franklin Covey believes its approach to organization and cultural change is distinguishable from the approach taken by more traditional change management and re-engineering firms, as Franklin Covey's approach complements, rather than competes with, the offerings of such firms.

Products. The paper-based time management and personal organization products market is intensely competitive and subject to rapid change. Franklin Covey 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 widespread name recognition. The Company believes its principal competitors include DayTimer, At–A–Glance and Day Runner. Franklin Covey also competes, to a lesser extent, with companies that market substitutes for paper-based products, such as electronic organizers, software PIMs and hand-held computers. The Company's Franklin Planner Software competes directly with numerous other PIMs. Many of Franklin Covey'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 are likely to pose a competitive threat. In response, Franklin Covey intends to combine online planning services with PALM® Computing and Compaq's® iPAQ™ Pocket PC, Software, web-based and paper planners to provide a competitive, complete planning solution to its clients.

Given the relative ease of entry in Franklin Covey's product markets, the number of competitors could increase, many of whom may imitate the Company's 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 the Company. Franklin Covey believes that the Franklin Planner and related products compete primarily on the basis of user appeal, client

loyalty, design, product breadth, quality, price, functionality and client service. Franklin Covey also believes that the Franklin Planner has obtained market acceptance primarily as a result of the concepts embodied in its Franklin Planner, the high quality of materials, innovative design, the Company's attention to client service, and the strong loyalty and referrals of its existing clients. Franklin Covey believes that its integration of training services with products has become a competitive advantage. Moreover, management believes that the Company is a market leader in the United States among a small number of integrated providers of time management products and services. Increased competition from existing and future competitors could, however, have a material adverse effect on the Company's sales and profitability.

Manufacturing and Distribution

The manufacturing operations of Franklin Covey consist primarily of printing, collating, assembling and packaging components used in connection with the Franklin Covey product line. Franklin Covey operates its central manufacturing services out of Salt Lake City. At that location, the Company prints and packages its products for its worldwide customers. The Company has also developed partner printers, both domestically and internationally, who can meet the Company's quality standards, thereby facilitating efficient delivery of product in a global market. The Company believes this has positioned it 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, Franklin Covey has gained greater control of production costs, schedules and quality control of printed materials.

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

Binders used for Franklin Covey's products are produced from either leather, simulated leather, tapestry or vinyl materials. These binders are produced by multiple and alternative product suppliers. Franklin Covey believes it enjoys good relations with its suppliers and vendors and does not anticipate any difficulty in obtaining the required binders and materials needed in its business. The Company has implemented special procedures to ensure a high standard of quality for its binders, most of which are manufactured by suppliers in the United States, Europe, Canada, Korea, Mexico and China.

Franklin Covey also purchases numerous accessories, including pens, books, videotapes, calculators and other products, from various suppliers for resale to its clients. These items are manufactured by a variety of outside contractors located in the United States and abroad. The Company does not believe that it is dependent on any one or more of such contractors and considers its relationships with such suppliers to be good.

Trademarks, Copyrights and Intellectual Property

Franklin Covey seeks to protect its intellectual property through a combination of trademarks, copyrights and confidentiality agreements. The Company claims rights for more 120 trademarks in the United States and has obtained registration in the United States and many foreign countries for many of its trademarks, including *Franklin Covey*, *The 7 Habits of Highly Effective People*, *Principle–Centered Leadership*, *What Matters Most*, *Franklin Planner*, *Writing Advantage*, and *The Seven Habits*. Franklin Covey considers its trademarks and other proprietary rights to be important and material to its business. Each of the marks set forth in italics above is a registered mark or a mark for which protection is claimed.

Franklin Covey owns all copyrights on its planners, books, manuals, text and other printed information provided in its training seminars, the programs contained within Franklin Planner Software and its instructional materials, and its software and electronic products, including audiotapes and videotapes. Franklin Covey licenses rather than sells all facilitator workbooks and other seminar and training materials in order to limit its distribution and use. Franklin Covey places trademark and copyright notices on its instructional, marketing and advertising materials. In order to maintain the proprietary nature of its product information, Franklin Covey enters into written confidentiality agreements with certain executives, product developers, sales professionals, training consultants, other employees and licensees. Although Franklin Covey believes its protective measures with respect to its proprietary rights are important, there can be no assurance that such measures will provide significant protection from competitors.

Employees

As of August 31, 2001, Franklin Covey had 3,247 full and part–time associates, including 1,277 in sales, marketing and training; 1,326 in customer service and retail; 452 in production operations and distribution; and 192 in administration and support staff. During fiscal 2001, 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 employees involved in these operations are now employed by EDS to provide those services to Franklin Covey. Additionally, the associates of Franklin Covey Coaching, LLC are not included in the associate numbers. None of Franklin Covey's associates are represented by a union or other collective bargaining group. Management believes that its relations with its associates are good. Franklin Covey 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 and Provo, Utah. The Company's Salt Lake City facilities currently consist of six Company owned and occupied buildings containing approximately 380,000 square feet and are subject to mortgages of $0.9 million as of August 31, 2001. The Company is also leasing 140,000 square feet near its Salt Lake City Campus for warehousing and additional office space. These leases expire in 2003 and 2016. The Company currently owns one building containing approximately 80,000 square feet for manufacturing that is leased to an external party. During the fourth quarter of fiscal 2001, the Company sold two buildings on its Salt Lake City campus that were used for warehousing and distribution operations as part of its outsourcing agreement with EDS.

The Company's Provo, Utah operations consisted of four buildings located within a fifteen-mile area. As part of its restructuring plan, the Company exited its leased office space located in two of the Provo buildings, totaling approximately 119,000 square feet, during fiscal 2000. The Company entered into a sublease agreement for the majority of the remaining life of the Company's lease obligation on the office space. The sublease agreement specifies base rental rates and requires the subleasee to pay all direct costs incurred by the company, including taxes and maintenance. The Company occupies all or a portion of the remaining two buildings located in Provo, with total leased space of approximately 60,000 square feet as of August 31, 2001. These three buildings house a call center and additional office space used by certain divisions of the company. Lease contracts on the Provo buildings terminate intermittently through the year 2009. Also in connection with its restructuring plan, the Company has moved its sales and marketing functions for the training and consulting business from the Provo facilities to eight leased regional sales offices located in New York, Chicago, Los Angeles, San Francisco, Columbus, Dallas, Atlanta, and Washington, D.C.

Franklin Covey also currently operates 164 retail stores currently under operating leases, with remaining terms of up to eleven years. Certain of these store leases include provisions for contingent rentals based on a percentage of sales.

In addition, the Company maintains sales, administrative and/or warehouse facilities in or near Salt Lake City; Phoenix; Atlanta; Dallas; Washington, D.C.; and Bellingham, Washington. The Company also has foreign offices and facilities located in Cambridge, Calgary, Ottawa, Tokyo, London, Brussels, Toronto, Vancouver, Montreal, Sydney, Brisbane, Mexico City, Guadalajara, Monterrey, and Sao Paulo. The Toronto office is company owned and subject to a mortgage of $0.9 million at August 31, 2001. All other international offices are subject to operating leases that expire intermittently through the year 2006.

Item 3. Legal Proceedings

The Company is not a party to, nor is any of its property subject to, any material pending legal proceedings, nor are any such proceedings known to the Company to be contemplated.

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 the year ended August 31, 2001.

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, 2001 and 2000, respectively.

	High	Low
Fiscal Year Ended August 31, 2001:		
Fourth Quarter	$ 7.06	$ 4.36
Third Quarter	8.75	6.16
Second Quarter	9.00	6.18
First Quarter	9.75	6.44
Fiscal Year Ended August 31, 2000:		
Fourth Quarter	$ 8.25	$ 6.38
Third Quarter	11.19	6.88
Second Quarter	10.19	6.81
First Quarter	8.69	7.00

The Company did not pay or declare dividends on its common stock during the fiscal years ended August 31, 2001 and 2000. The Company currently anticipates that it will retain all available funds to finance its future growth and business expansion. The Company does not presently intend to pay cash dividends in the foreseeable future.

As of November 1, 2001, the Company had 19,881,531 shares of its common stock outstanding, held by approximately 350 shareholders of record.

Item 6. Selected Financial Data

FINANCIAL HIGHLIGHTS

August 31,	*2001*	*2000*	*1999*	*1998*	*1997*
In thousands, except per share data					
INCOME STATEMENT DATA:					
Sales	$ 525,333	$ 602,985	$ 571,596	$ 565,360	$ 448,544
Net Income (Loss)	(11,083)	(4,409)	(8,772)	40,058	38,865
Income (Loss) Attributable to Common Shareholders	(19,236)	(12,414)	(10,647)	40,058	38,865
Diluted Earnings Per Share	(0.95)	(0.61)	(0.51)	1.62	1.76
BALANCE SHEET DATA:					
Total Assets	$ 535,069	$ 592,479	$ 623,303	$ 597,277	$ 572,187
Long-Term Obligations	93,271	65,790	6,543	126,413	94,144
Shareholders' Equity	309,882	374,053	378,434	341,654	355,405

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

Overview

Franklin Covey Co. (the "Company") provides integrated learning and performance solutions to organizations and individuals designed to increase productivity and improve skills for leadership, sales, communication, and other areas. Each solution set includes capabilities in training, consulting and assessment, and various application tools available in electronic or paper-based formats. The Company's products and services are available through professional consulting services, public workshops, catalogs, retail stores, and the Internet at www.franklincovey.com and www.franklinplanner.com. The Company's best known products include the Franklin Planner™ and the best-selling book, *The 7 Habits of Highly Effective People.*

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

On November 13, 2001, the Company signed a definitive agreement to sell Premier Agendas ("Premier"), a wholly owned subsidiary that provides productivity and learning solutions to the educational industry. The sales price is $152.5 million in cash. In addition, the Company will retain approximately $13.0 million of Premier's working capital. The transaction is subject to regulatory approval and other customary closing conditions. The Company expects to recognize a gain from the sale of Premier and anticipates that the sale will be completed during the second quarter of fiscal 2002.

During April 2001, the Company 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.

Effective September 1, 2000, the Company entered into a joint venture with American Marketing Systems ("AMS") to form Franklin Covey Coaching, LLC. Under terms of the joint venture agreement, the Company and AMS each own 50 percent of Franklin Covey Coaching, LLC and are equally represented in the management of the new company. The Company contributed substantially all of the assets of its personal coaching division to form Franklin Covey Coaching, LLC.

In December 1999, the Company purchased a majority interest in "DayTracker.com," an on-line provider of scheduling and calendar services. The total purchase price was $11.0 million in cash and notes payable. The acquired web site and its on-line scheduling and organizational services can be accessed on the Internet at www.franklinplanner.com.

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 is a leading measurement assessment firm specializing in measuring the impact and return on investment of training and consulting programs.

In January 1999, the Company acquired the assets of Khalsa Associates for $2.7 million in cash. Khalsa Associates is a leading provider of sales training seminars and products.

Results of Operations

The following table sets forth consolidated statement of operations data and other selected operating data expressed as percentages of total sales:

YEAR ENDED AUGUST 31,	*2001*	*2000*	*1999*
Sales	100.0%	100.0%	100.0%
Cost of sales	43.2	45.6	45.9
Gross margin	56.8	54.4	54.1
Operating expenses:			
Selling, general and administrative	49.5	44.1	40.6
Stock option purchase and relocation costs		1.9	
Depreciation	5.0	4.0	3.6
Amortization	3.7	3.5	3.3
Restructuring costs		(0.8)	2.8
Loss on impaired assets			3.0
Total operating expenses	58.2	52.7	53.3
Income (loss) from operations	(1.4)	1.7	0.8
Equity in earnings of unconsolidated subsidiary	0.4		
Interest income	0.7	0.3	0.2
Interest expense	(1.7)	(1.1)	(1.7)
Net interest expense	(1.0)	(0.8)	(1.5)
Income (loss) before provision for income taxes	(2.0)	0.9	(0.7)
Provision for income taxes	0.1	1.6	0.8
Net loss	(2.1)	(0.7)	(1.5)
Preferred dividends	(1.6)	(1.4)	(0.4)
Loss attributable to common shareholders	(3.7)%	(2.1)%	(1.9)%
Sales Data:			
Retail stores	28.9%	27.1%	24.6%
Catalog and eCommerce	17.2	18.3	17.9
OSG	16.1	14.3	13.6
Educational	17.3	14.2	12.4
International	10.0	8.4	8.8
Other	10.5	17.7	22.7

Fiscal 2001 Compared With Fiscal 2000

Sales

In general, the Company's sales were affected by the adoption of the Emerging Issues Task Force ("EITF") Issue No. 00-10, which requires all shipping and handling costs to be recorded as sales. Previously, the Company recorded amounts billed to customers for shipping and handling as a component of cost of sales to offset the corresponding shipping and handling expense. All periods presented have been restated for enhanced comparability. The Company's sales, by reportable segment, were as follows (in thousands):

YEAR ENDED AUGUST 31,	*2001*	*2000*	*1999*
Retail stores	$ 151,943	$ 163,305	$ 140,850
Catalog/eCommerce	90,450	110,543	102,335
OSG	84,723	85,977	77,496
Educational	91,037	85,348	70,798
International	51,851	50,870	50,611
Other	55,329	106,942	129,506
	$ 525,333	$ 602,985	$ 571,596

Retail store sales decreased primarily due to reduced consumer traffic during fiscal 2001, combined with strong prior year sales of handheld electronic planning devices and related accessories. 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. Sales through the Company's Organizational Sales Group ("OSG") decreased due to reduced on-site corporate leadership and productivity seminars, as well as reduced sales of associated training products. The Company attributes the decline in corporate seminars to economic conditions that appear to have adversely affected corporate training spending during fiscal 2001. Educational sales, which include the sales of Premier, increased primarily due to an increase in the number of schools that use Premier's products and services. Premier, which provides productivity and leadership solutions to students, teachers, and others in the education market, records the majority of its sales during the Company's fourth fiscal quarter. Increased international sales in Mexico and Europe were partially offset by decreases in Australia, Canada, New Zealand, and at various licensee operations. Other sales consist primarily of personal coaching, wholesale, government, and public seminar sales. Other sales decreased primarily due to the shift of personal coaching services to a joint venture, decreased wholesale sales, and decreased public seminar sales. As a result of the formation of the joint venture, the Company no longer recognizes the sales of the Personal Coaching division, but only recognizes its share of net income from the joint venture. Sales through the wholesale channel were adversely affected by decreased demand, primarily for paper-based products, from contract stationer and other related distributors. Public seminar sales declined due to an overall decline in the number of participants attending the Company's public programs.

Gross Margin

Gross margin consists of sales less cost of sales. The Company's cost of sales includes materials used in the production of planners and related products, assembly and manufacturing labor costs, commissions of training consultants, 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 mix, changes in product discount levels, production efficiency, training consultant commissions, and freight costs.

During fiscal 2001, the Company's gross margin improved to 56.8 percent, compared to 54.4 percent in the prior year. The Company's gross margin improved primarily due to increased Premier sales, reduced inventory adjustments due to improved procedures, the sale of the commercial division of Publishers Press, and price increases on certain planner products and seminars. Premier sales, which have higher margins than many other products and services sold by the Company, increased as a percentage of total sales during fiscal 2001. The current year 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 the Company's other products and services. Partially offsetting these factors was the formation of Franklin Covey Coaching, LLC, which reduced the Company's overall gross margin due to financial reporting requirements that exclude the favorable gross margins of the personal coaching business from the Company's financial statements.

Operating Expenses

Selling, general and administrative ("SG&A") expenses decreased by $6.2 million, net of stock option purchase and relocation costs in fiscal 2000, compared to the prior year. However, due to reduced sales volume, SG&A expenses increased as a percent of sales to 49.5 percent, compared to 44.1 percent in fiscal 2000. The decrease 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 accounting guidelines required by the formation of the Franklin Covey Coaching, LLC joint venture, the Company no longer includes the operating expenses of its Personal Coaching division, which totaled $10.8 million in fiscal 2000, in its consolidated results. During fiscal 2001, the Company reduced certain catalog and promotional expenses to improve the overall profitability of its catalog/eCommerce operation. Due to declining sales volumes experienced during fiscal 2001, the Company also implemented numerous cost saving initiatives in various operating areas of the Company. These initiatives were generally successful and the Company realized significant SG&A expense savings, especially in its third and fourth fiscal quarters. Partially offsetting these reductions were increased operating expenses resulting from the Company's 29 retail stores that were opened during fiscal 2001 and increased operating expenses at Premier, which were necessary to support current and expected sales growth.

During the fourth quarter of fiscal 2001, the Company entered into a long-term outsourcing agreement with Electronic Data Systems ("EDS") to provide warehousing, distribution, information systems, and call center operations. Under the terms of the agreement, EDS will operate the Company's primary call center, support the Company's information systems, and provide warehousing and distribution services. Although the Company did not recognize significant cost savings during fiscal 2001 primarily due to one-time transition charges, the Company believes that the agreement with EDS will reduce operating costs for the outsourced operations over the life of the agreement. The outsourcing agreement with EDS expires in 2016.

Depreciation expense increased by $2.0 million over the prior year 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 $1.3 million, primarily due to the contribution of personal coaching intangible assets to the newly formed Franklin Covey Coaching, LLC, joint venture.

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 owns 50 percent of the joint venture and participates equally in its management. The Company accounts for its investment in Franklin Covey Coaching, LLC using the equity method of accounting and reports its share of the joint venture's net income as equity in earnings of an unconsolidated subsidiary. The Company's 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 Company performance during fiscal 2001, which resulted in higher debt balances and lower cash balances. In addition, interest expense increased due to larger debt balances resulting from the Company's new line of credit agreement signed during the fourth quarter of fiscal 2001. The new line of credit agreement included the management stock loan participant's debt, which was previously guaranteed by the Company. As a result, the Company paid interest to the bank 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. Accordingly, the Company recognized $2.5 million of additional interest income, which is recorded as a receivable from the loan participants.

Income Taxes

The Company's effective income tax rate continues to be adversely affected by non-deductible goodwill amortization, the effect 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 the Company's effective tax rate.

Preferred Stock Dividends

Preferred stock dividends increased over the prior year due to the issuance of additional shares of preferred stock as payment for accrued dividends. The Company may, at its option, 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 in cash.

Fiscal 2000 Compared With Fiscal 1999

Sales

Retail store sales increased due to a 13 percent increase in comparable store sales and the opening of 10 new stores during fiscal 2000. At August 31, 2000, the Company was operating 135 stores compared to 125 stores at August 31, 1999. Comparable store sales growth during fiscal 2000 was primarily fueled by increased sales of handheld electronic planning and organizational devices, as well as sales of related accessories. Although catalog/eCommerce sales increased compared to the prior year, the Company's catalog operation continued to be adversely affected by increased Internet (or eCommerce) sales, which the Company attributed to general changes in consumer buying preferences. Sales through the Company's web site at www.franklincovey.com were also favorably affected by special promotions advertised in the Company's catalogs and on its web site as well as by ongoing improvements to the Company's electronic commerce infrastructure. OSG sales increased primarily due to improved sales effectiveness and leadership training sales. Increased sales effectiveness revenue was due to new contracts and increased demand for seminars taught by Khalsa Associates, which was acquired by the Company during fiscal 1999. Increased leadership program sales were primarily due to improved organizational sales, especially for custom programs, and related business development program sales. During fiscal 2000, training sales in general were adversely affected by the relocation and transition of certain sales associates to new regional sales offices. Educational sales increased due to a 20 percent increase in sales from Premier. International sales increased in Canada, Mexico, and Brazil and were offset by decreased sales in Australia, Japan, the Middle East, and New Zealand. Other sales, which consist primarily of personal coaching, commercial printing and tabbing operations, wholesale, government, and public seminar sales, decreased $22.5 million compared to fiscal 1999. The decrease was primarily due to the sale of the commercial printing division of Publishers Press, which was effective February 28, 2000. Additionally, personal coaching sales declined due to reduced demand for coaching services from one of its major customers. Government sales continued to be adversely affected by uncertainties surrounding the potential closure of GSA depots and service centers. Public seminar sales also decreased due to reduced enrollment in the Company's public seminar programs. Partially offsetting these decreases were increased wholesale sales primarily resulting from increased demand from existing sales and marketing agreements, the successful introduction of new products, and the addition of new marketing and distribution agreements.

Gross Margin

Gross margin was 54.4 percent of sales compared to 54.1 percent in fiscal 1999. The Company's gross margin improved primarily due to product write-offs related to the restructuring plan that were expensed in fiscal 1999, and to new inventory procurement and management procedures, which reduced the amount of product write-offs during fiscal 2000. Partially offsetting these improvements were the adverse effects of product mix changes, decreased sales of certain training programs and increased wholesale channel sales. During fiscal 1999, the Company began a restructuring plan that examined all aspects of the business. In connection with this review, certain products and curricula were discontinued. Additionally, the Company actively sought to optimize inventory levels through improved policies and procedures. These improved procedures had a favorable effect on the Company's gross margin during fiscal 2000. Partially offsetting these improvements were significantly increased sales of handheld electronic planning devices during fiscal 2000. Although increased demand for handheld electronic devices favorably affected sales performance, these electronic devices have gross margins that are lower than the majority of the Company's other products and services. In addition, decreased sales of higher margin training program revenues, primarily productivity programs and personal coaching, also adversely affected the Company's gross margin. Increased sales through wholesale channels continued to unfavorably affect the Company's gross margin through contracted pricing terms that produced increased sales volume, but at lower margins.

Operating Expenses

Selling, general and administrative expenses increased $34.0 million to 44.1 percent of sales compared to 40.6 percent of sales during fiscal 1999. Increased SG&A expenses were primarily due to ongoing development of electronic-based products and services, electronic commerce channels, spending to support expected growth in the Premier business, newly acquired businesses, increased promotional expenses, the addition of 10 new retail stores, and increased consulting costs associated with projects related to the Company's restructuring plan. The increases were partially offset by a decrease in core employee costs as a result of headcount reduction efforts. Throughout fiscal 2000, the Company aggressively invested in the development and marketing of new electronic-based products, online training programs, and various application tools. Due to the significant increase in handheld electronic devices and related accessories, the Company increased its customer support services for these products. Additionally, the Company continued to invest in improvements to its electronic commerce infrastructure to meet changing consumer preferences and committed significant resources to the development of its Internet web site and other online products and services, such as www.franklinplanner.com. Premier, which develops and produces planners and other solutions for the educational market, increased its SG&A spending as a result of a new regional office and additional headcount deemed necessary to support expected growth. The purchases of the Professional Resources Organization and DayTracker.com, which were acquired during fiscal 2000, also resulted in increased total SG&A expenses compared to the prior year. The Company also increased its promotional spending, primarily for catalogs and direct mailings, to advertise new products and to improve public program sales. As part of the Company's restructuring plan, consultants were engaged to assist the Company with projects such as improving brand recognition, improving accounts receivable collections, and expanding European operations.

Depreciation expense increased by $3.4 million compared to the prior year primarily due to purchases of computer hardware and software, office furniture and fixtures, manufacturing equipment, and the addition of leasehold improvements in new stores and regional sales offices. Amortization charges increased by $2.2 million primarily due to the amortization of goodwill related to contingent earnout payments made to the former owners of Premier and Personal Coaching, and the acquisition of DayTracker.com.

Stock Option Purchase and Relocation Costs

During fiscal 2000, the Company expensed $11.2 million of additional costs primarily to reacquire outstanding stock options and to relocate the majority of its sales associates to new regional offices. In an effort to reduce the potentially dilutive effect of outstanding options on the Company's capital structure, the Company actively sought to reacquire outstanding stock options from both current and former employees. The majority of option purchase costs were incurred in connection with a tender offer made by the Company during its third fiscal quarter to purchase all outstanding options with an exercise price of $12.25 or higher. As a result of the tender offer and previous purchases of option shares, the Company acquired 3,294,476 options for a total cost of $8.7 million. The remaining $2.5 million was spent primarily to relocate certain sales associates to new regional offices. At August 31, 2000, all regional sales offices were operating. The associated costs were included as a separate expense component in the accompanying consolidated statement of operations for the fiscal year ended August 31, 2000.

Restructuring

During the fourth quarter of fiscal 1999, the Company's Board of Directors approved a plan to restructure the Company's operations, reduce its workforce and formally exit the majority of its leased office space located in Provo, Utah. These changes were intended to align the Company's products, services, and channels in a manner that focused Company resources on providing integrated learning and performance solutions to both individuals and organizations. The restructuring was also intended to lay strategic, operational, organizational, and financial foundations for profitable growth. In connection with the restructuring plan, the Company recorded a restructuring charge of $16.3 million, which was included in the Company's statement of operations for the fiscal year ended August 31, 1999. Included in the restructuring charge were costs to provide severance and related benefits to former employees, as well as costs to formally exit the leased office space. The restructuring plan was substantially completed during fiscal 2000.

As part of the restructuring, the Company provided severance and related benefits to employees affected by the changes. The cost to provide these benefits under the restructuring plan was estimated to be $11.7 million and covered a reduction of approximately 600 employees across all areas of the business. At August 31, 2000, the remaining accrued severance costs were reviewed and reduced based upon estimates of remaining liability for the severance program. The adjustment was primarily due to favorable economic conditions that reduced the average time necessary for terminated employees to find new employment. Remaining accrued severance costs are expected to be sufficient for remaining payments related to the severance plan.

Also included in the restructuring provision was a charge to exit the majority of the Company's leased office space in Provo, Utah. These facilities contained sales, marketing, and other functions primarily aligned with training and education sales. Before exiting the lease, sales and other sales support functions located in Provo were moved to regional offices located in New York, Chicago, Los Angeles, San Francisco, Columbus, Dallas, Atlanta, and Washington, D.C. The Company anticipated the costs to exit the facilities and sublease the space to be approximately $4.6 million. During fiscal 2000, the office space was subleased and the exit accrual was reduced by $0.4 million to reflect favorable building transition costs. The remaining building exit accrual at August 31, 2000 represents the difference between base rental charges and the offsetting expected sublease revenue receipts. The remaining accrual is expected to be sufficient to complete the building exit plan.

Interest Expense

Interest expense decreased $3.7 million primarily due to lower long-term debt balances during fiscal 2000. Long-term debt decreased due to the retirement of $85.0 million of notes payable during October 1999. The notes payable were retired using existing cash balances and the Company's expanded lines of credit.

Income Taxes

The Company's effective income tax rate was adversely affected by non-deductible goodwill amortization, the effect of foreign losses, and the magnified effects of certain other non-deductible items resulting from decreased taxable income. Amortization of goodwill primarily generated from the merger with Covey Leadership Center and certain other acquisitions is not deductible for income tax purposes and had an adverse effect on the Company's effective tax rate. During fiscal 2000, the effect of foreign losses was primarily comprised of losses sustained in Japan, Australia, and New Zealand for which no offsetting tax benefit could be recognized due to uncertain future taxable income to offset such losses.

Preferred Stock Dividends

In connection with the issuance of 750,000 shares of preferred stock in the fourth quarter of fiscal 1999, the Company completed a subscription offering for up to an additional 750,000 shares of preferred stock during fiscal 2000. The subscription offering closed during the Company's second quarter of fiscal 2000 with 42,338 shares purchased under terms of the offering. The increase in preferred stock dividends during fiscal 2000 was due to the full-year impact of previously issued shares and the subscription offering that closed during fiscal 2000.

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. Results of any one or more quarters are not necessarily indicative of continuing trends.

Quarterly Financial Information:

YEAR ENDED AUGUST 31, 2001

	Q1	Q2	Q3	Q4
In thousands, except per share amounts				
Sales	$ 129,121	$ 133,366	$ 90,610	$172,236
Gross margin	77,614	74,407	49,671	96,881
Income (loss)before provision for income taxes	2,837	(1,715)	(26,522)	14,584
Net income (loss)	1,330	(804)	(14,587)	2,978
Preferred dividends	2,028	2,028	2,027	2,070
Income (loss) available to common shareholders	$ (698)	$ (2,832)	$ (16,614)	$ 908
Diluted income (loss) per share	$ (.03)	$ (.14)	$ (.84)	$ .05

YEAR ENDED AUGUST 31, 2000

	Q1	Q2	Q3	Q4
In thousands, except per share amounts				
Sales	$ 148,879	$ 149,365	$ 113,732	$191,009
Gross margin	85,053	83,098	57,710	101,997
Restructuring costs			(402)	(4,544)
Stock option purchase and relocation costs	491	1,668	8,361	707
Income (loss) before provision for income taxes	13,093	5,430	(27,701)	14,731
Net income (loss)	7,188	2,819	(18,834)	4,418
Preferred dividends	1,914	2,036	2,028	2,027
Income (loss)available to common shareholders	$ 5,274	$ 783	$ (20,862)	$ 2,391
Diluted income (loss) per share	$ .26	$ .04	$ (1.02)	$ .12

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 during holiday and vacation periods. Educational sales are primarily affected by the timing of Premier's sales, which occur nearly exclusively in the Company's fourth fiscal quarter. The seasonal nature of the Company's operations has historically resulted in higher sales and significantly higher operating margins during the first, second, and fourth quarters, with declines in sales and income occurring during the third quarter of each fiscal year.

During fiscal 2000, the Company incurred and expensed $11.2 million for other costs related to its restructuring plan that were not specific to severance or leased office space exit costs. These costs were primarily comprised of charges resulting from a stock option tender offer and other purchases of outstanding stock options, and to relocate sales associates to new regional sales offices. These costs have been classified as a separate component of operating expenses. In an effort to reduce the potentially dilutive effect of stock options on the Company's capital structure, the Company was actively engaged in purchasing stock options from current and former employees. As part of this strategy, the Company filed a tender offer statement with the SEC that closed during the Company's third quarter of fiscal 2000. Under terms of the offer, the Company paid cash for the outstanding option shares, which were priced using a market value methodology. As a result of the tender offer and previous purchases of option shares, the Company reacquired 3,294,476 option shares for $8.7 million in cash. The remaining $2.5 million was primarily used to relocate the Company's sales force to eight new regional offices that were opened during fiscal 2000.

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

Liquidity and Capital Resources

Historically, the Company's primary sources of capital have been net cash provided by operating activities, long-term borrowing, and line-of-credit financing. Working capital requirements have also been financed through short-term borrowing and line-of-credit financing. In addition to these sources, the Company issued preferred stock to a private investor and to existing shareholders through a subscription offering that closed during fiscal 2000. The preferred stock issued to shareholders was substantially identical to the preferred shares previously issued to the private investor. Net proceeds from the subscription offering were $4.1 million.

Net cash provided by operating activities during fiscal 2001 was $35.7 million compared to $50.6 million in fiscal 2000. Adjustments to net loss in fiscal 2001 included $47.9 million of depreciation and amortization charges. The Company also received $3.4 million of cash from its investment in Franklin Covey Coaching, LLC, an unconsolidated joint venture operation. In addition, the Company paid $2.2 million of interest on amounts borrowed to acquire the management loan program notes. Interest is not due from the participants of the management stock loan program until the loans mature in March 2005. The primary sources of cash from operations were the collection of accounts receivable and reduced inventories. The Company has improved various policies and procedures related to the collection of accounts receivable and has been able to reduce its receivable balance in spite of continued fourth quarter sales growth at Premier. The Company also continues to pursue optimal inventory levels, which have been reduced due to improved inventory procedures and decreased sales levels during fiscal 2001. The primary uses of cash in fiscal 2001 were payments on accounts payable and accrued liabilities in the normal course of business, and for items related to the Company's restructuring plan, including severance benefits. For the fiscal year ended August 31, 2000, adjustments to net loss included $48.8 million of amortization and depreciation. The primary sources of cash from operations during fiscal 2000 were collection of accounts receivable and reduced inventory balances. In addition, the Company utilized certain income tax benefits and various tax strategies to minimize required income tax payments throughout the year, which resulted in a net cash benefit to the Company. The primary uses of cash for operations included payments for severance and building exit costs related to the Company's restructuring plan and for stock options that were purchased by the Company.

Net cash used for investing activities during fiscal years 2001 and 2000 was $16.4 million and $38.9 million, respectively. During fiscal 2001, the Company spent $27.0 million on purchases of property and equipment. These capital expenditures were used primarily for leasehold improvements and fixtures in new and remodeled retail stores and to purchase computer hardware and software. Partially offsetting these cash outflows for new property and equipment was the sale of the Company's warehouse and distribution facilities located in Salt Lake City, Utah, which were sold for net cash proceeds of $15.1 million. These facilities were sold in connection with the Company's warehousing and distribution outsourcing agreement, which was completed during the fourth quarter of fiscal 2001. For the year ended August 31, 2000, the Company used $24.5 million of cash to purchase computer hardware and software, manufacturing equipment, leasehold improvements, and other property and equipment. The Company also used $16.3 million to pay contingent earnout payments to the former owners of Premier and personal coaching. In addition, the operations of Professional Resources Organization and Daytracker.com were acquired during fiscal 2000 for $4.5 million in cash. The Company also sold the assets of the commercial division of Publishers Press, a printing services subsidiary, for $11.0 million in cash and a $2.4 million secured note receivable. Net cash proceeds to the Company from the sale totaled $6.4 million.

Net cash used for financing activities during fiscal 2001 was $25.0 million, compared to $18.0 million in fiscal 2000. The primary uses of cash for financing activities during fiscal 2001 included the reduction of short-term line-of-credit borrowing by $8.1 million, purchases of treasury stock totaling $7.5 million, and payment of preferred stock dividends for $6.1 million. During fiscal 2000, the primary source and use of cash was related to the expansion of the Company's line of credit and the retirement of certain notes payable. At August 31, 1999, the Company had $85.0 million of senior unsecured notes payable (the "Notes Payable") outstanding. The Notes Payable required the Company to maintain certain financial ratios and net worth levels until the Notes Payable were paid in full. Due to restructuring charges in the fourth quarter of fiscal 1999, the Company was not in compliance with the terms of the Notes Payable. The Company did not obtain a waiver of the terms of the Notes Payable, and during the first quarter of fiscal 2000, the Notes Payable were retired at par plus accrued interest. The Company used existing cash and its lines of credit to retire the Notes Payable. Also during the first quarter of fiscal 2000, the Company obtained a new line of credit from existing lenders that maintained the Company's short-term line of credit, but expanded its long-term line of credit. During fiscal 2000, the Company also purchased $5.5 million of its common stock for treasury and paid $6.0 million for preferred stock dividends.

During the fourth quarter of fiscal 2001, the Company entered into a new credit agreement with its lenders. The new credit agreement is comprised of a $69.0 million term loan and a $45.6 million revolving credit facility, which expires in May 2004. Combined with an existing $17.0 million line of credit facility that expires in December 2001, the Company had lines of credit available for working capital needs totaling $62.6 million, of which $17.3 million was available at August 31, 2001.

The line of credit agreements require the Company to maintain certain financial ratios and working capital levels, excluding the impact of loan loss reserves on the management stock loan program that were recorded during fiscal 2001. As of August 31, 2001, the Company was in compliance with the terms of the line of credit agreements. However, based upon operating results recorded during the first two months of the first quarter of fiscal 2002, the Company expects to not be in compliance with the terms of the line of credit agreements at the end of the first quarter of fiscal 2002. In addition, the long-term credit facility is subject to a borrowing base calculation that determines the available borrowing amount. At August 31, 2001, the borrowing base calculation did not limit the amount available to the Company.

On November 13, 2001, the Company signed a definitive agreement to sell Premier Agendas for $152.5 million in cash. In addition, the Company will retain approximately $13.0 million of Premier's working capital. The final purchase price is based upon actual balances at the closing date, which is expected to be during December 2001. The Company anticipates utilizing the majority of the proceeds of the sale to pay the term loan and revolving line of credit in full, settle the $4.6 million interest rate swap liability, and to fund a tender offer for shares of the Company's common stock. Although a definitive agreement has been signed for the sale of Premier, there can be no assurance that the sale will be completed for the disclosed price and during the expected timeframe.

During fiscal 2000, the Company implemented an incentive-based compensation program that included a loan program from external lenders to certain management personnel for the purpose of purchasing shares of the Company's common stock. The program gave management of the Company the opportunity to purchase shares of the Company's common stock on the open market, and from shares purchased by the Company, by borrowing on a full-recourse basis from the external lenders. The loan program closed during fiscal 2001 with 3,825,000 shares purchased for a total cost of $33.6 million. The loans and accrued interest are due in March 2005. As part of the credit agreement obtained in fiscal 2001 (described above), the Company recorded the notes receivable from participants of the program as a component of shareholders' equity in its August 31, 2001 consolidated balance sheet. Under terms of the new credit agreement, the Company will now be the lender on these full-recourse notes from the participants of the loan program. The corresponding liability was included as a component of the term loan payable in the Company's new credit agreement. At August 31, 2001, the participant loans exceeded the value of the common stock held by the participants by $18.9 million. All participants have agreed to repay the Company for any loss incurred on their loans. In fiscal 2001, the Company established a reserve on these notes by recording a non-cash charge of $1.1 million, which was included in the operating results of the Company for fiscal 2001.

On November 26, 2001, the Company filed a tender offer statement with the Securities and Exchange Commission to purchase up to 7,333,333 shares of its common stock at a purchase price of $6.00 per share. The tender offer is subject to the completion of the sale of Premier and subsequent retirement of the Company's existing credit facilities as described above, as well as other customary conditions set forth in the tender offer statement.

Going forward, the Company will continue to incur costs necessary for the development of online products, electronic commerce channels, strategic acquisitions and joint ventures, retail store growth and renovations, and other costs related to the growth of the business. Cash provided by operations, asset sales, available lines of credit, and other financing alternatives will be used for these expenditures. Management anticipates that its existing capital resources will be sufficient to enable the Company to maintain its current level of operations and its planned internal growth for the foreseeable future. The Company will also continue to pursue additional financing alternatives as it positions itself for future growth and capital requirements.

Regulatory Compliance

The Company is registered in all 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 has not had a material effect on the Company's 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 its 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 completion of the proposed sale of Premier, the integration of acquired or merged businesses, management of costs in connection with reduced revenues, unanticipated costs, 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 risk factors which may be detailed from time to time in the Company's press releases, reports to shareholders and in filings with the Securities and Exchange Commission ("SEC").

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 including international sales. Sales outside the United States potentially present additional risks such as political, social, and economic instability.

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 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, the Company does not enter into derivative instruments for speculative purposes, nor is the Company party to any leveraged derivative instrument.

Foreign Exchange Sensitivity

Due to the nature of the Company's global operations, the Company is involved in transactions that are denominated in currencies other than the U.S. dollar, which creates exposure to currency exchange rate risk. The Company utilizes a foreign currency forward contract to manage the volatility of certain intercompany transactions denominated in Japanese Yen. This forward contract did not meet specific hedge accounting requirements and corresponding gains and losses have been recorded as a component of current operations, which offset gains and losses on the underlying transaction. The notional amount of the Company's foreign currency forward contract was $6.0 million at August 31, 2001.

Interest Rate Sensitivity

The Company is exposed primarily to fluctuations in U.S. interest rates and as a result of its borrowing activities. The following table summarizes the Company's debt obligations at August 31, 2001. 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).

	Maturity (Fiscal Year)					
Debt	2002	2003	2004	2005	2006	Thereafter
Fixed rate	$ 4,801	$ 292	$ 274	$ 90	$ 94	$ 1,167
Average interest rate ..	8.00%	7.88%	7.91%	8.27%	8.32%	8.37%
Variable rate	18,243	8,023	45,576	33,000		
Average interest rate ..	5.67%	6.29%	6.40%	6.29%		

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. The Company designates 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.

In connection with the management loan program initiated in fiscal 2000, the Company entered into an interest rate swap agreement to lock an interest rate for loan participants. 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. The interest rate swap agreement allows the Company to pay a fixed rate and receive a floating rate from the counterparty through the term of agreement, which expires in March 2005. At August 31, 2001, the fair value of this swap agreement was a liability of $4.6 million.

Euro Conversion

On January 1, 1999, the European Monetary Union ("EMU"), which is comprised of 11 out of the 15 member countries of the European Union, introduced a new common currency, the "Euro." During the transition period between January 1, 1999 and January 1, 2002, both the Euro and national currencies will coexist. The national currencies will remain legal tender until at least January 1, 2002, but not later than July 1, 2002. The Company currently transacts business in EMU countries using the national currencies and translates the financial results of those countries in accordance with current accounting pronouncements. The Company has not experienced, nor does it expect to experience, a material adverse impact on its financial condition, results of operations, or liquidity as a result of the Euro conversion.

Item 8. Financial Statements and Supplementary Data

FRANKLIN COVEY CO.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Franklin Covey Co.:

We have audited the accompanying consolidated balance sheets of Franklin Covey Co. (a Utah corporation) and subsidiaries as of August 31, 2001 and 2000, and the related consolidated statements of operations and comprehensive loss, shareholders' equity, and cash flows for each of the three years in the period ended August 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Franklin Covey Co. and subsidiaries as of August 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2001 in conformity with accounting principles generally accepted in the United States.

/s/ ARTHUR ANDERSEN LLP

Salt Lake City, Utah
October 4, 2001 (except for Note 20, as to
which the date is November 26, 2001)

FRANKLIN COVEY CO.
CONSOLIDATED BALANCE SHEETS

AUGUST 31,	*2001*	*2000*
In thousands, except share data		
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,864	$ 21,242
Accounts receivable, less allowance for doubtful accounts of $2,052 and $3,350, respectively	78,827	84,747
Inventories	45,173	53,599
Deferred income taxes	10,182	12,916
Other assets	16,631	20,531
Total current assets	165,677	193,035
Property and equipment, net	104,876	121,556
Goodwill and other intangibles, net	225,805	258,475
Investment in unconsolidated subsidiary	16,910	
Other assets	21,801	19,413
	$ 535,069	$ 592,479
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Lines of credit	$ 9,750	$ 17,884
Accounts payable	26,671	28,251
Accrued compensation	10,910	13,598

Other accrued liabilities	37,261	47,906
Income taxes payable	2,808	4,645
Current portion of long-term debt	13,294	6,873
Current portion of capital lease obligations	380	540
Total current liabilities	101,074	119,697
Line of credit	35,576	55,000
Long-term debt, less current portion	49,940	7,125
Capital lease obligations, less current portion		380
Other liabilities	7,755	3,285
Deferred income taxes	30,842	32,939
Total liabilities	225,187	218,426
Commitments and contingencies (Notes 5, 6, 7, 8, 17, and 20)		
Shareholders' equity:		
Preferred stock - Series A, no par value; convertible into common stock at $14 per share; liquidation preference totaling $85,206 at August 31, 2001; 4,000,000 shares authorized, 831,365 shares and 811,088 shares issued, respectively, at $100 per share	82,995	80,967
Common stock, $.05 par value; 40,000,000 shares authorized, 27,055,894 shares issued	1,353	1,353
Additional paid-in capital	223,898	225,748
Retained earnings	167,475	186,711
Notes and interest receivable from sales of common stock to related parties	(35,977)	(894)
Restricted stock deferred compensation		(58)
Accumulated other comprehensive loss	(5,467)	(122)
Treasury stock at cost, 7,215,363 and 6,439,329 shares, respectively	(124,395)	(119,652)
Total shareholders' equity	309,882	374,053
	$ 535,069	$ 592,479

See accompanying notes to consolidated financial statements.

FRANKLIN COVEY CO.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

YEAR ENDED AUGUST 31,	***2001***	***2000***	***1999***
In thousands, except per share data			
Sales	$ 525,333	$ 602,985	$ 571,596
Cost of sales (exclusive of stock option purchase costs totaling $2,113 in fiscal 2000)	226,760	275,127	262,640
Gross margin	298,573	327,858	308,956
Selling, general, and administrative (exclusive of stock option purchase and relocation costs totaling $9,114 in fiscal 2000)	259,987	266,170	232,168
Stock option purchases and relocation costs		11,227	
Depreciation	26,181	24,190	20,799
Amortization	19,698	20,977	18,740
Restructuring costs		(4,946)	16,282
Loss on impaired assets			16,559
Income (loss) from operations	(7,293)	10,240	4,408
Equity in earnings of unconsolidated subsidiary	2,088		
Interest income	3,467	1,665	1,278
Interest expense	(9,078)	(6,178)	(9,912)
Other expense, net		(174)	
Income (loss) before provision for income taxes	(10,816)	5,553	(4,226)
Provision for income taxes	267	9,962	4,546
Net loss	(11,083)	(4,409)	(8,772)
Preferred stock dividends	8,153	8,005	1,875
Net loss attributable to common shareholders	**$ (19,236)**	**$ (12,414)**	**$ (10,647)**
Basic and diluted net loss per share	$ (.95)	$ (.61)	$ (.51)
Basic and diluted weighted average number of common and common equivalent shares	20,199	20,437	20,881
COMPREHENSIVE LOSS:			
Net loss attributable to common shareholders	$ (19,236)	$ (12,414)	$ (10,647)
Market value of interest rate swap agreement, net of tax	(2,786)		
Foreign currency translation adjustments	(732)	660	1,468
Comprehensive loss	**$ (22,754)**	**$ (11,754)**	**$ (9,179)**

See accompanying notes to consolidated financial statements.

FRANKLIN COVEY CO.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	SERIES A PREFERRED STOCK	COMMON STOCK	ADDITIONAL	NOTES AND	ACCUMULATED OTHER	TREASURY STOCK

	SHARES	AMOUNT	SHARES	AMOUNT	PAID-IN CAPITAL	RETAINED EARNINGS	INTEREST RECEIVABLE	DEFERRED COMPENSATION	COMPREHENSIVE LOSS	SHARES	AMOUNT
In thousands											
Balance at August 31, 1998 ...		$	27,056	$ 1,353	$ 238,052	$ 209,772	$	$ (843)	$ (2,250)	(4,813)	$(104,430)
Issuance of Series A Preferred Stock.....	750	75,000									
Preferred stock dividends						(1,875)					
Tax benefit from exercise of affiliate stock options ...					1,320						
Issuance of common stock from treasury					(3,740)					263	5,566
Purchase of treasury shares ..										(2,126)	(32,710)
Deferred compensation								523			
Cumulative translation adjustment									1,468		
Net loss						(8,772)					
Balance at August 31, 1999	750	75,000	27,056	1,353	235,632	199,125		(320)	(782)	(6,676)	(131,574)
Issuance of Series A Preferred Stock	42	4,092									
Preferred stock dividends						(8,005)					
Tax benefit from exercise of affiliate stock options.					557						
Issuance of common stock from treasury					(10,441)					925	17,404
Purchase of treasury shares...										(688)	(5,482)
Issuance of note receivable from sale of common stock							(894)				
Deferred compensation								262			
Cumulative translation adjustment									660		
Dividends on preferred stock paid with additional shares of preferred stock	19	1,875									
Net loss						(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)
Preferred stock dividends ...						(8,153)					
Tax benefit from exercise of affiliate stock options					25						
Issuance of common stock from treasury					(1,875)					165	2,712
Purchase of treasury shares										(941)	(7,455)
Deferred compensation								58			
Cumulative translation adjustment									(732)		
Purchase of notes receivable and accrued interest receivable from sales of common stock, net							(35,083)				
Dividends on preferred stock paid with additional shares of preferred stock	20	2,028									
Valuation of derivative financial instrument									(4,613)		
Net loss						(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)

See accompanying notes to consolidated financial statements.

FRANKLIN COVEY CO.
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED AUGUST 31,	***2001***	***2000***	***1999***
In thousands			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (11,083)	$ (4,409)	$ (8,772)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	47,873	48,805	44,220
Cash distribution of earnings from unconsolidated subsidiary	3,354		
Equity in earnings of unconsolidated subsidiary	(2,088)		
Provision for losses on management stock loan program	1,052		
Loss on impaired assets			16,559
Deferred income taxes	637	1,562	(10,503)
Restricted stock deferred compensation amortization	58	262	522
Payments for interest on management loan program	(2,229)		
Changes in assets and liabilities, net of effects from			

acquisitions:			
Decrease (increase) in accounts receivable	5,610	4,639	(8,879)
Decrease (increase) in inventories	8,303	3,943	(11,981)
Increase in other assets and other long-term liabilities, net	(494)	(8,056)	(3,868)
Increase (decrease) in accounts payable and accrued liabilities	(10,814)	5,804	10,966
Increase (decrease) in accrued restructuring costs	(2,648)	(11,040)	16,200
Increase (decrease) in income taxes payable	(1,811)	9,113	(8,491)
Net cash provided by operating activities	**35,720**	**50,623**	**35,973**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of businesses, including earnout payments	(4,432)	(21,444)	(19,025)
Purchases of property and equipment, net of effects from acquisitions	(27,027)	(24,523)	(22,996)
Proceeds from sale of property and equipment, net	15,096	7,032	1,288
Net cash used for investing activities	**(16,363)**	**(38,935)**	**(40,733)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net (decrease) increase in short-term line of credit borrowings	(8,134)	16,488	(2,229)
Proceeds from long-term debt and line of credit, net of effects from acquisitions	33,951	76,308	1,142
Payments on long-term debt and capital lease obligations	(38,323)	(109,502)	(40,652)
Proceeds from issuance of Series A Preferred Stock, net		4,092	75,000
Purchases of common stock for treasury	(7,455)	(5,483)	(32,710)
Proceeds from issuance of treasury stock	1,042	6,069	1,826
Payment of preferred stock dividends	(6,084)	(5,977)	
Net cash (used for) provided by financing activities	**(25,003)**	**(18,005)**	**2,377**
Effect of foreign currency exchange rates	(732)	778	1,404
Net decrease in cash and cash equivalents	(6,378)	(5,539)	(979)
Cash and cash equivalents at beginning of the year	21,242	26,781	27,760
Cash and cash equivalents at end of the year	**$ 14,864**	**$ 21,242**	**$ 26,781**

See accompanying notes to consolidated financial statements.

FRANKLIN COVEY CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Franklin Covey Co. (the "Company") 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. The Company's products and services are available through professional consulting services, public workshops, retail stores, catalogs, and the Internet at www.franklincovey.com and through its online planning system at www.franklinplanner.com. The Company's best known products include the Franklin Planner™ and 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. Corresponding quarterly periods generally consist of 13-week periods that ended on November 25, 2000, February 24, 2001, and May 26, 2001 during fiscal 2001.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 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 18), are accounted for using the equity method in the accompanying consolidated financial statements.

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 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, 2001, the Company had demand deposits at various banks in excess of the $100,000 limit for insurance by the Federal Deposit Insurance Corporation.

Inventories

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

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation or amortization. Depreciation and amortization, which includes the amortization of assets recorded under capital lease obligations, are 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. Expenditures for maintenance and repairs are charged to expense as incurred. Gains and losses on the sale of property and equipment are recorded in current operations.

Restricted Investments

The Company's restricted investments are comprised 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 11). The Company accounts for its restricted investments using Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The Company determines the proper classification of investments at the time of purchase and reassesses such designations at each balance sheet date. At August 31, 2001, the Company's restricted investments were classified as trading securities and recorded in other long-term assets in the accompanying consolidated balance sheets.

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

Other Long-Term Assets

The Company was recently involved in a business reengineering and information systems implementation project (the "Project"). Certain costs of the Project were capitalized in accordance with accounting standards generally accepted in the United States. At August 31, 2001 and 2000, the Company had $5.8 million and $8.5 million, of net capitalized Project costs classified as other long-term assets. Project costs are amortized over a five-year period following completion of associated Project phases. As of August 31, 2000, all phases of the Project were completed. Other long-term assets generally consist of capitalized development costs, restricted investments as described above, and notes receivable.

Long-Lived Assets

The Company reviews its long-lived assets for impairment at each balance sheet date for events or changes in circumstances that may indicate the book value of an asset may not be recoverable. The Company uses an estimate of future undiscounted net cash flows of the related asset or group of assets over the remaining life in measuring whether the assets are recoverable. The Company assesses the impairment of long-lived assets at the lowest level for which there are identifiable cash flows that are independent of other groups of assets.

During the fourth quarter of fiscal 1999, the Company initiated a plan to restructure its operations (Note 14). As part of the restructuring plan, all programs, products, and curricula were evaluated to determine their future value in the restructured Company. As a result of this evaluation, certain products, services, and curricula were discontinued which impacted the related long-lived assets and goodwill. Based upon the results of this review, the Company recognized a $16.6 million charge to earnings in the fourth quarter of fiscal 1999 for impaired assets related to the discontinued products and programs. The loss on impaired assets for the year ended August 31, 1999 was comprised of the following (in thousands):

Goodwill and other intangibles	$ 8,234
Other long-term assets	6,772
Property and equipment	1,553
	$ 16,559

The Company disposed of these assets, as the assets had no market value or alternative uses to the Company. Impaired goodwill and other intangible assets were primarily comprised of goodwill generated from previous acquisitions whose products or services were discontinued. Impaired other long-term assets primarily consisted of capitalized costs for Project modules that were determined to have no future value. Impaired property and equipment was comprised of purchased software that was written off because it was unusable and a printing press that was unable to meet printing quality standards.

Foreign Currency Translation and Transactions

The balance sheet accounts of the Company's foreign subsidiaries are translated into U.S. dollars using the current exchange rate. Revenues and expenses are translated using an average exchange rate. The resulting translation gains or losses are recorded as a component of accumulated other comprehensive income or loss in shareholders' equity. Transaction gains and losses are reported in current operations.

Revenue Recognition

Revenue is recognized upon delivery or shipment of product, presentation of training seminars, or delivery of consulting services.

Pre-Opening Costs

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

Advertising Costs

Costs for newspaper, television, radio, and other advertising are expensed as incurred. Direct response advertising costs consist primarily of printing and mailing costs for catalogs and seminar mailers that are charged to expense over the period of projected benefit, not to exceed 12 months. Total advertising costs were $32.7 million, $37.2 million, and $33.0 million for the years ended August 31, 2001, 2000, and 1999, respectively. Prepaid catalog and seminar mailer costs reported in other current assets were $5.2 million and $5.1 million at August 31, 2001 and 2000, respectively.

Research and Development Costs

The Company expenses research and development costs in accordance with generally accepted accounting principles in the United States. During fiscal 2001, 2000, and 1999, the Company expensed $3.7 million, $6.2 million, and $2.2 million, respectively, of research and development costs.

Stock Option Purchase and Relocation Costs

During fiscal 2000, the Company incurred expenses primarily comprised of charges related to a stock option tender offer and other purchases of outstanding stock options (Note 10), and to relocate certain sales associates to eight new regional sales offices. These costs were included as a separate component of operating expenses in the accompanying consolidated statement of operations for the fiscal year ended August 31, 2000.

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 the Company's assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted.

Comprehensive Loss

Comprehensive loss includes charges and credits to equity accounts that are not the result of transactions with shareholders. Comprehensive loss is comprised of net loss and other comprehensive loss items. The Company's comprehensive losses consist of the fair value of derivative instruments and changes in the cumulative foreign currency translation adjustment account. The changes in the cumulative foreign currency translation adjustment account are not adjusted for income taxes as they relate to specific indefinite investments in foreign subsidiaries.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade receivables. In the normal course of business, the Company provides credit terms to its customers. Accordingly, the Company performs ongoing credit evaluations of its customers and maintains allowances for possible losses which, when realized, have been within the range of management's expectations.

Fair Value of Financial Instruments

The book value of the Company's financial instruments approximates fair value. The estimated fair values have been determined using appropriate market information and valuation methodologies.

Recent Accounting Pronouncements

Effective September 1, 2000, the Company adopted the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 138. The new standard requires that all derivative instruments be recorded on the balance sheet as either an asset or liability measured at fair value, and that changes in the derivative's fair value be recognized as a component of earnings from current operations unless specific hedge criteria are met. The cumulative effect of adopting SFAS No. 133 was not material to the Company's financial statements.

During September 2000, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board ("FASB") released Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs." This standard requires that all amounts billed to a customer in a sale transaction related to shipping and handling be classified as sales. Previously, the Company recorded amounts billed to customers for shipping and handling as a component of cost of sales to offset the corresponding shipping and handling expense. Based upon the EITF release, amounts charged to customers for shipping and handling have been reclassified as sales in the accompanying consolidated statements of operations.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. SFAS No. 142 eliminates amortization of goodwill and intangible assets with indefinite lives and requires such assets to be tested for impairment and written down to appropriate fair values. SFAS No. 142 is required for fiscal years beginning after December 15, 2001. Early adoption is permitted for companies with a fiscal year beginning after March 15, 2001, provided that the first quarter financial statements have not been previously issued. The Company will adopt these statements on September 1, 2001 and will not have goodwill amortization subsequent to fiscal 2001. In connection with the adoption of SFAS No. 142, the Company will assess its goodwill and intangibles for impairment based upon the new rules and, if necessary, will adjust the carrying value of its goodwill and other intangible assets. As of August 31, 2001, the Company had net goodwill and other intangible assets totaling $225.8 million. The Company is currently assessing its goodwill and intangible assets, and may be required to record a material charge in fiscal 2002 as a result of adopting the provisions of SFAS No. 142.

In June 2001, the 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 has not completed its analysis of the impact of adopting SFAS No. 143, but does not expect this statement to have a material impact on its operations or financial position.

During August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" and various provisions of APB Opinion No. 30. This statement establishes new guidelines, in connection with SFAS No. 142, for recognizing losses on certain long-lived assets when the carrying amount of the asset is

not recoverable. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001. As of August 31, 2001, the Company has not completed its analysis of the impact of adopting the provisions of SFAS No. 144 and its effect upon the Company's operations and financial position.

Reclassifications

Certain reclassifications have been made in the prior years' consolidated financial statements to conform with the current year presentation.

2. INVENTORIES

Inventories were comprised of the following (in thousands):

AUGUST 31,	***2001***	***2000***
Finished goods	$31,616	$38,363
Work-in-process	2,408	2,803
Raw materials	11,149	12,433
	$45,173	$53,599

Certain inventories represent collateral for debt obligations (Note 5).

3. PROPERTY AND EQUIPMENT

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

AUGUST 31,	***2001***	***2000***
Land and improvements	$ 4,982	$ 7,634
Buildings	34,238	49,623
Computer hardware and software ...	71,599	69,261
Machinery and equipment	41,702	42,554
Furniture, fixtures and leasehold improvements	60,216	50,994
	212,737	220,066
Less accumulated depreciation and amortization	(107,861)	(98,510)
	$ 104,876	$ 121,556

During fiscal 2001, the Company entered into an outsourcing agreement with Electronic Data Systems ("EDS") to provide warehousing, distribution, information systems, and call center operations (Note 8). In connection with the outsourcing agreement, the Company sold its warehouse and distribution facilities located in Salt Lake City, Utah for $15.3 million in cash. The Company generated a $0.4 million gain from the sale of the warehouse and distribution facility.

Certain land and buildings represent collateral for debt obligations (Note 5).

4. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets consisted of the following (in thousands):

AUGUST 31,	***2001***	***2000***
Goodwill	$ 120,274	$ 142,755
License rights	27,000	27,000
Curriculum rights	62,431	61,778
Trade names and other	94,838	92,517
	304,543	324,050
Less accumulated amortization ..	(78,738)	(65,575)
	$ 225,805	$ 258,475

Goodwill, representing the excess of cost over the net tangible and identifiable intangible assets of acquired businesses, and other intangible assets were amortized on a straight-line basis over the following estimated useful lives:

	Useful Lives
Goodwill	5-30 years
License rights	40 years
Curriculum rights	14-30 years
Trade names and other	4-40 years

As discussed in Note 1, effective September 1, 2001, the Company will no longer amortize goodwill and certain intangible assets with indefinite lives.

5. DEBT

Lines of Credit

During fiscal 2001, the Company entered into a new credit agreement with its lenders. The new credit agreement is comprised of a $69.0 million term loan and a $45.6 million revolving credit facility, which expires in May 2004. Combined with an existing $17.0 million line of credit facility that expires in December 2001, the Company had lines of credit available for working capital needs totaling $62.6 million, of which $17.3 million was available at August 31, 2001. The amounts outstanding under the Company's lines of credit consisted of the following as of August 31, 2001 (in thousands):

$17.0 million current line of credit with interest at LIBOR plus 1.5%, secured by inventories and receivables	$ 9,750
$45.6 million long-term credit facility with interest at LIBOR plus 2.5%, secured by real estate, inventory, and receivables	35,576
Total borrowings under lines of credit	$ 45,326

The weighted average interest rate on outstanding current line of credit debt was 5.1 percent and 8.6 percent at August 31, 2001 and 2000, respectively. The weighted average interest rate on the Company's long-term credit facilities was 6.4 percent and 8.7 percent as of August 31, 2001 and 2000, respectively. Commitment fees associated with the lines of credit were $0.2 million during fiscal 2001.

The line of credit agreements require the Company to maintain certain financial ratios and working capital levels. At August 31, 2001, the Company was in compliance with the terms of the line of credit agreements. In addition, the long-term credit facility is subject to a borrowing base calculation that determines the available borrowing amount. The borrowing base calculation did not limit the amount available to the Company at August 31, 2001. However, based upon operating results recorded during the first two months of the first quarter of fiscal 2002, the Company expects to be out of compliance with the terms of its long-term line of credit agreement at the end of the first quarter of fiscal 2002. The Company anticipates utilizing a portion of the proceeds from the sale of Premier Agendas (Note 20) to pay the term loan and revolving credit line in full during the second quarter of fiscal 2002. Although a definitive agreement has been signed for the sale of Premier Agendas ("Premier"), there can be no assurance that the sale will be completed for the disclosed price and during the expected timeframe.

Long-Term Debt

Long-term debt was comprised of the following (in thousands):

AUGUST 31,	2001	2000
Term note payable to bank, payable as described below with interest at LIBOR plus 2.5%, secured by real estate, inventories, and receivables	$ 56,211	$
Note payable in annual installments of $3,000 plus interest at 8% through December 2001, unsecured	3,000	6,000
Note payable on demand, plus interest at 8.0%, unsecured, payable to related parties	1,481	1,396
Mortgage payable in monthly installments of $14 CDN, including interest at 7.2% through January 2015, secured by real estate	907	997
Note payable to bank, payable in monthly installments of $20, including interest at 7.8% through August 2004, secured by equipment	615	802
Mortgage payable in monthly installments of $8 including interest at 9.9% through October 2014, secured by real estate	665	688
Note payable to bank, payable in monthly installments of $23, plus interest at prime plus .5% payable through September 2002, secured by real estate	305	587
Note payable in quarterly installments of $574 including interest at 5.0% through April 2001, paid in full		1,679
Mortgage payable in monthly installments of $18 including interest at 8.5% through August 2016, paid in full due to sale of property in fiscal 2001		1,619
Other mortgages and notes, payable in monthly installments, interest ranging from 2.0% to 8.8%, due at various dates through 2002, secured by equipment	50	230
	63,234	13,998
Less current portion	(13,294)	(6,873)
Long-term debt, less current portion	$ 49,940	$ 7,125

A significant component of the Company's new credit facility is a $69.0 million term loan. As of August 31, 2001, the Company had outstanding borrowings under the term loan of approximately $56.2 million. Included in the term loan amount was $33.6 million related to the purchase of stock under the management common stock loan program (Note 17), which was previously guaranteed by the Company. The terms of the $69.0 million loan require an installment payment of $15.0 million on November 30, 2001 and quarterly payments of $2.0 million through May 31, 2004. The remaining repayment schedule requires one installment on June 30, 2004 equal to $36.0 million less the aggregate dollar amount of principal payments made prior to that date and one final payment for remaining principal and interest due on March 31, 2005. The weighted average interest rate on the $69.0 million term loan was 6.3 percent at August 31, 2001. The term loan requires the Company to maintain the same financial ratios and working capital levels as described above for the long-term line of credit agreement.

During fiscal 2001, the Company sold its warehouse and distribution facility in Salt Lake City, Utah and applied the net cash proceeds of the sale to the term loan. As a result, the Company paid $12.8 million on the $15.0 million term note payment due on November 30, 2001. The corresponding mortgages on the warehouse and distribution facilities were paid in full from the proceeds of the sale.

Future maturities of long-term debt at August 31, 2001 were as follows (in thousands):

YEAR ENDING AUGUST 31,	
2002	$ 13,294
2003	8,316
2004	7,274
2005	33,090
2006	94
Thereafter	1,166
	$ 63,234

6. LEASE OBLIGATIONS

Capital Leases

Future minimum lease payments for equipment held under capital lease arrangements as of August 31, 2001 were as follows (in thousands):

YEAR ENDING AUGUST 31,	
2002	$ 392
Less amount representing interest	(12)
Present value of future minimum lease payments	380
Less current portion	(380)
	$

Total assets held by the Company under capital lease arrangements were $4.0 million with accumulated amortization of $2.6 million as of August 31, 2001. Amortization of capital lease assets is included in depreciation expense in the accompanying consolidated statements of operations.

Operating Leases

The Company leases certain retail store and office locations under noncancelable operating lease agreements with remaining terms of one to 15 years. The following table summarizes future minimum lease payments under operating leases at August 31, 2001 (in thousands):

YEAR ENDING AUGUST 31,	
2002	$ 15,329
2003	14,489
2004	13,021
2005	9,939
2006	6,732
Thereafter	22,951
	$ 82,461

Total rental expense for leases under operating lease agreements was $19.5 million, $17.4 million, and $17.6 million, for the years ended August 31, 2001, 2000, and 1999, respectively.

As part of its restructuring plan (Note 14), the Company exited certain leased office space in Provo, Utah during fiscal 2000. In connection with leaving the office space, the Company obtained a noncancelable sublease agreement for the majority of the Company's remaining lease term on the buildings. Future minimum lease payments due to the Company from the subleasee as of August 31, 2001 were as follows:

YEAR ENDING AUGUST 31,	
2002	$ 1,845
2003	1,901
2004	1,958
2005	2,017
2006	2,077
Thereafter	1,232
	$ 11,030

Total sublease payments to the Company totaled $2.2 million and $0.6 million in fiscal 2001 and 2000, respectively.

7. DERIVATIVE INSTRUMENTS

During the normal course of business, the Company is exposed to interest rate and foreign currency exchange risks. To manage risks associated with interest rates and foreign currencies, the Company makes limited utilization of derivative financial instruments. Derivatives are financial instruments that derive their value from one or more underlying financial instruments. As a matter of policy, the Company's 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, the Company does not enter into derivative contracts for trading or speculative purposes, nor is the Company 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 its use of derivatives. The Company enters into derivative agreements with highly rated counterparties and the Company does 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. The Company designates 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.

In connection with the management loan program (Note 17), the Company entered into an interest rate swap agreement to lock an interest rate for loan participants. As a result of the credit agreement obtained in fiscal 2001 (Note 5), the notes receivable from loan participants, corresponding debt, and interest rate swap agreement were recorded on the Company's consolidated balance sheet. The interest rate swap agreement allows the Company to pay a fixed rate and receive a floating rate from the counterparty through the term of agreement, which expires in March 2005. At August 31, 2001, the fair value of this agreement was a $4.6 million liability, which was recorded as a component of other long-term liabilities and accumulated comprehensive loss on the accompanying consolidated balance sheet for fiscal 2001. The interest rate differential totaled $0.1 million for fiscal 2001, which will be recovered by the Company from the loan participants upon repayment of the loans.

Subsequent to August 31, 2001, the Company signed a definitive agreement to sell Premier Agendas, a wholly owned subsidiary (Note 20). The Company anticipates utilizing a portion of the proceeds to pay the term loan and revolving line of credit (Note 5). In connection with the payment of these debt balances, the Company anticipates that a portion of the proceeds from the sale of Premier will be used to settle the $4.6 million liability related to the interest rate swap agreement.

Foreign Currency Exposure

The Company has international operations and during the normal course of business is exposed to foreign currency exchange risks as a result of transactions that are denominated in currencies other than the United States dollar. At August 31, 2001, the Company utilized a foreign currency forward contract to manage the volatility of certain intercompany financing transactions that are denominated in Japanese Yen. This contract did not meet specific hedge accounting requirements and corresponding gains and losses have been recorded as a component of current operations, which offset the gains and losses on the underlying transaction, in the accompanying consolidated statement of operations for fiscal 2001 and 2000. The notional amount of the Company's foreign currency forward contract was $6.0 million at August 31, 2001.

8. COMMITMENTS AND CONTINGENCIES

EDS Contract

During fiscal 2001, the Company entered into a long-term outsourcing agreement with Electronic Data Systems ("EDS") to provide warehousing, distribution, information systems, and call center operations. Under terms of the outsourcing contract, EDS will operate the Company's primary call center, provide warehousing and distribution services, and support the Company's information systems. The contract expires in 2016 and has required minimum payments totaling approximately $389.9 million, which are payable over the term of the contract. Beginning in fiscal 2003, the warehouse, distribution, and call center components of the contract will be a variable charge, which will be based upon the number of actual transactions processed, such as boxes shipped and calls answered. Minimum payments for these services have been estimated using expected activity levels for future periods. The outsourcing contract also contains early termination provisions that the Company may exercise under certain conditions. In order to exercise the early termination provisions, the Company would have to pay specified penalties to EDS. The Company believes that the outsourcing agreement with EDS will reduce operating costs and improve asset utilization.

Purchase Commitments

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

Legal Matters

The Company is the subject of certain legal actions, which it considers routine to its business activities. As of August 31, 2001, management believes that, after consultation with legal counsel, any potential liability to the Company under such actions will not materially affect the Company's financial position or results of operations.

9. RELATED PARTY TRANSACTIONS

The Company pays a Vice-Chairman of the Board of Directors a percentage of the proceeds received for seminars that are presented by him. During the fiscal years ended August 31, 2001, 2000, and 1999, the Company paid $3.5 million, $3.3 million, and $3.0 million, respectively, to the Vice-Chairman for such seminars.

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. Rent expense paid to the partnership totaled $2.1 million per year for the fiscal years ended August 31, 2001, 2000, and 1999.

Premier Agendas, a subsidiary of the Company, had trade accounts payable to various companies that are partially owned by certain former owners of Premier totaling $0.5 million and $2.1 million at August 31, 2001 and 2000, respectively. In addition, Premier had notes payable to key employees and former key employees totaling $1.5 million and $1.4 million as of August 31, 2001 and 2000, respectively (Note 5). The notes payable were used for working capital, are due upon demand, and have interest rates that approximate prevailing market rates.

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 as a variable security, 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 from sales of common stock to related parties in the shareholders' equity section of the accompanying consolidated balance sheets.

During fiscal 2000, the Company actively sought to reacquire outstanding options to purchase the Company's common stock (Note 10). Included in the total number of option shares reacquired, the Company purchased 150,000 option shares 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 options were reacquired using the same valuation methodology as other stock options purchased by the Company.

During the fiscal year ended August 31, 2000, the Company purchased 9,000 shares of its 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.

As part of the preferred stock offering completed during fiscal 1999, an affiliate of the investor was named Chairman of the Board of Directors and Chief Executive Officer (“CEO”). The Chairman and CEO was previously a member of the Company's Board. In addition, two affiliates of the investor were appointed to the Board of Directors. In connection with the preferred stock offering, the Company pays an affiliate of the investor a monitoring fee of $100,000 per quarter.

In January 1999, the Company issued 1,450 shares of its common stock to each member of the Board of Directors for $17.25 per share. The purchase price was to be paid in the form of secured promissory notes that were payable in three annual installments. During fiscal 2000, the promissory notes were canceled and the Company retained the shares of stock.

During the fiscal year ended August 31, 1999, the Company purchased 130,000 shares of its common stock for $2.3 million in cash, from an officer of the Company. Also during fiscal 1999, the Company purchased 92,000 shares of its common stock for $1.2 million in cash from a former officer and director of the Company. The shares in each of these transactions were purchased at the existing fair market value on the dates of the transactions.

10. CAPITAL TRANSACTIONS

Preferred Stock

Preferred stock dividends accrue at an annual rate of 10.0 percent and are payable quarterly in cash or additional shares of preferred stock until July 1, 2002. Subsequent to that date, all preferred dividends must be paid in cash. During fiscal 2001, the Company issued 20,277 shares of preferred stock to existing preferred shareholders as payment for third quarter accrued preferred dividends. All other preferred dividend payments made during fiscal 2001 were paid with cash. At August 31, 2001 and 2000, the Company had accrued $2.1 million and $2.0 million of preferred dividends, respectively. Subsequent to August 31, 2001, the Company paid the accrued preferred dividend with additional shares of preferred stock. The 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 the Company's common stock. Preferred stock shareholders generally have the same voting rights as common stock holders on an "as-converted" basis.

Treasury Stock

The Company sold 164,496, 153,614, and 263,100 shares of its common stock held in treasury as a result of the exercise of incentive stock options and the purchase of shares under the Company's employee stock purchase plan for the fiscal years ended August 31, 2001, 2000, and 1999, respectively. These shares were sold for a total of $1.0 million, $1.0 million, and $1.4 million, and had a cost of approximately $2.7 million, $2.9 million, and $5.6 million for the fiscal years ended August 31, 2001, 2000, and 1999. Additionally, during fiscal 2000, the Company sold 650,000 shares of treasury stock to its management stock loan program (Note 17) for $5.1 million, which was the fair market value of the shares sold.

Through August 31, 2000, the Company's 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, the Company had purchased 7,705,000 shares under these board-authorized plans. On December 1, 2000, the Company's Board of Directors approved an additional plan to purchase up to $10.0 million of the Company's common stock. Through August 31, 2001, the Company had purchased 888,000 shares for $7.1 million under the terms of this plan. In connection with Board authorized purchase plans, the Company purchased 900,000 shares for $7.2 million, 688,000 shares for $5.5 million, and 2,126,000 shares for $32.7 million during the fiscal years ended August 31, 2001, 2000, and 1999, respectively. In addition, the Company purchased 41,000 shares of its common stock with a cost of $0.3 million during fiscal 2001 for exclusive distribution to participants enrolled in the employee stock purchase plan.

Tax Benefit from Exercise of Affiliate Stock Options

During the fiscal years ended August 31, 2001, 2000, and 1999, 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, $0.6 million, and $1.3 million, which were recorded as increases to additional paid-in capital.

Restricted Stock Deferred Compensation

Restricted stock deferred compensation represents restricted stock granted to key executives. The restricted stock is fully vested four years from the date of grant and was recorded at the fair market value at the date of grant. Compensation expense was recognized ratably over the corresponding four-year vesting period. All restricted stock deferred compensation programs were fully vested at August 31, 2001. Restricted stock deferred compensation was included as a reduction to shareholders' equity in the accompanying consolidated balance sheets.

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 the Company's 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 the Company's Board of Directors. At August 31, 2001, approximately 460,000 shares were 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, 1998 ..	3,669,730	$ 21.89
Granted	2,058,825	12.02
Exercised	(231,931)	3.59
Forfeited	(212,459)	18.89
Outstanding at August 31, 1999 ..	5,284,165	19.05
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

During fiscal 2001, the Company’s shareholders ratified a Board approved employment agreement for the Company’s CEO. In connection with the employment agreement, the CEO was granted 1.6 million options to purchase shares of the Company’s 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 the CEO or as the Company’s Chairman of the Board of Directors.

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

AUGUST 31,	*2001*	*2000*	*1999*
Exercisable options ...	1,039,672	757,656	2,683,966
Weighted average exercise price per share	$ 13.27	$ 14.83	$ 23.87

In an effort to reduce the potentially dilutive effect of outstanding options on the Company's capital structure, the Company 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, the Company 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, the Company purchased 3,294,476 option shares for a total cost of $8.7 million in cash.

The Company applies Accounting Principles Board ("APB") Opinion 25 and related interpretations in accounting for its plans. Accordingly, no compensation expense has been recognized for its stock option plans or employee stock purchase plan. Had compensation cost for the Company's stock option plans and employee stock purchase plan been determined in accordance with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net loss and corresponding loss per share would have been the pro forma amounts indicated below (in thousands, except per share data):

YEAR ENDED AUGUST 31,	*2001*	*2000*	*1999*
Net loss attributable to common shareholders as reported	$ (19,236)	$ (12,414)	$ (10,647)

Net loss attributable to common shareholders pro forma	(21,302)	(11,404)	(16,181)
Diluted loss per share as reported	(.95)	(.61)	(.51)
Diluted loss per share pro forma	(1.10)	(.57)	(.80)

The following information applies to options outstanding at August 31, 2001:

- A total of 1,395,824 options outstanding have exercise prices between $2.78 and $12.25 per share, with a weighted average exercise price of $7.99 and a weighted average remaining contractual life of 7.6 years. At August 31, 2001, 642,050 options were exercisable.
- The 1,602,000 outstanding options granted to the Company's CEO in connection with a Board approved employment agreement have an exercise price of $14.00 per share, with a weighted average remaining contractual life of 9.0 years. At August 31, 2001, none of the options were exercisable.
- The remaining 442,205 options outstanding have exercise prices between $14.69 and $34.50 per share, with a weighted average exercise price of $21.78 per share and a weighted average remaining contractual life of 3.8 years. At August 31, 2001, 397,622 options were exercisable.

The weighted average fair value of option shares granted under the Company's stock option plans during the fiscal year ended August 31, 2001 was $3.07 for shares granted at the market price and $3.05 for options granted to the CEO. The weighted average fair value of option shares granted during fiscal 2000 and fiscal 1999 was $3.03 and $4.79, respectively.

The Black-Scholes option-pricing model was used to calculate the weighted average fair value of options granted using the following assumptions for grants for fiscal years 2001, 2000, and 1999:

YEAR ENDED AUGUST 31,	***2001***	***2000***	***1999***
Dividend yield	None	None	None
Volatility	55.3%	55.3%	55.8%
Expected life (years)	6.9	4.4	4.3
Risk free rate of return	5.7%	5.3%	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 options exercised during fiscal years 2001, 2000, and 1999, was $8.58, $8.40, and $7.04, respectively.

11. EMPLOYEE BENEFIT PLANS

Profit Sharing Plans

The Company has defined contribution profit sharing plans that qualify under Section 401(k) of the Internal Revenue Code. The plans provide retirement benefits for employees meeting minimum age and service requirements. Participants may contribute up to 15 percent of their gross wages, subject to certain limitations. The plans provide for matching contributions by the Company. The matching contributions expensed in the years ended August 31, 2001, 2000, and 1999, were $1.8 million, $1.8 million, and $1.7 million, respectively.

Employee Stock Purchase Plan

The Company has an employee stock purchase plan whereby shares of common stock can be purchased by qualified employees at a price equal to 85 percent of the fair market value of common stock at the time of purchase. A total of 144,035, 142,327, and 66,019 shares were issued under this plan for the fiscal years ended August 31, 2001, 2000, and 1999, respectively. Shares available for issuance under this plan at August 31, 2001 were 730,403. The Company accounts for its employee stock purchase plan under the provisions of APB Opinion 25 and related interpretations.

Deferred Compensation Plan

During fiscal 2000, the Company established a deferred compensation plan for certain key officers and employees that provides the opportunity for these employees to defer a portion of their compensation until a later date. The Company's expenses under the deferred compensation plan were $0.2 million during fiscal 2001 and $0.1 million during fiscal 2000. Deferred compensation amounts used to pay benefits are held in a "rabbi trust", which invests in various mutual funds and/or the Company's common stock as directed by the participants. The trust assets are recorded in the accompanying 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 on the trust assets. The plan's assets and liabilities, which were approximately $3.1 million and $3.3 million at August 31, 2001 and 2000, respectively, were recorded as components of other long-term assets and other long-term liabilities in the accompanying consolidated balance sheets.

12. INCOME TAXES

The provision for income taxes consists of the following (in thousands):

YEAR ENDED AUGUST 31,	***2001***	***2000***	***1999***
Current:			
Federal	$ (3,259)	$ 7,131	$ 12,545
State	207	1,698	2,046
Foreign	2,753	2,907	2,077
Deferred:			
Federal	460	(1,440)	(10,422)
State	106	(334)	(1,700)
	$ 267	$ 9,962	$ 4,546

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

YEAR ENDED AUGUST 31,	***2001***	***2000***	***1999***
Federal statutory tax rate	(35.0)%	35.0%	(35.0)%
State income taxes, net of federal effect	0.9	4.9	(3.5)
Goodwill amortization	21.0	56.4	44.6
Effect of foreign losses and tax rate differential	6.0	53.3	63.9
Other	9.6	29.8	37.6
	2.5%	179.4%	107.6%

Goodwill amortization consists of non-deductible goodwill generated by the merger with Covey Leadership Center and certain other acquisitions. During the fiscal years ended August 31, 2000 and 1999, 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 are comprised of various non-deductible 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 years 2001, 2000, and 1999.

Significant components of the Company's deferred tax assets and liabilities are comprised of the following (in thousands):

AUGUST 31,	***2001***	***2000***
Deferred income tax assets:		
Inventory and bad debt reserves	$ 4,767	$ 4,700
Sales returns and contingencies	2,732	3,648
Restructuring cost accruals	975	2,058
Vacation and other accruals	1,637	2,495
Deferred compensation	1,340	1,310
Interest and other capitalization	463	362

Other	864	141
Total deferred income tax assets	12,778	14,714
Deferred income tax liabilities:		
Intangibles and fixed asset step-up	(27,833)	(29,342)
Depreciation and amortization	(2,412)	(1,455)
Other	(3,193)	(3,940)
Total deferred income tax liabilities	(33,438)	(34,737)
Net deferred income tax liabilities	$(20,660)	$(20,023)

13. 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, all common stock equivalents, 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 (in thousands, except per share amounts):

YEAR ENDED AUGUST 31,	***2001***	***2000***	***1999***
Net loss	$(11,083)	$ (4,409)	$ (8,772)
Preferred stock dividends	8,153	8,005	1,875
Net loss attributable to common shareholders	$(19,236)	$(12,414)	$(10,647)
Basic and diluted weighted-average shares outstanding	20,199	20,437	20,881
Basic and diluted net loss per share	$ (.95)	$ (.61)	$ (.51)

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:

YEAR ENDED AUGUST 31,	***2001***	***2000***	***1999***
Number of preferred shares on an "as converted" basis	5,829,689	5,793,529	1,339,286
Common stock equivalents from the assumed exercise of stock options	55,692	82,144	171,929
Total antidilutive shares excluded from the EPS calculation	5,885,381	5,875,673	1,511,215

14. RESTRUCTURING COSTS

During the fourth quarter of fiscal 1999, the Company's Board of Directors approved a plan to restructure the Company's operations, reduce its workforce, and formally exit the majority of its leased office space located in Provo, Utah. These changes were intended to align the Company's products, services, and distribution channels in a manner that focuses Company resources on providing integrated training and performance solutions to organizations and individuals. In connection with the restructuring plan, the Company recorded a fourth quarter restructuring charge of $16.3 million, which is included in the accompanying consolidated statement of operations for the fiscal year ended August 31, 1999. Included in the restructuring charge were costs to provide severance and related benefits, as well as costs to formally exit the leased office space. The Company's restructuring plan was substantially completed during fiscal 2000. The components of the accrued restructuring charge and the remaining accrual balances at August 31, 2001 were as follows (in thousands):

	Severance Costs	***Leased Office Space Exit Costs***	***Total***
Accrued restructuring costs at August 31, 2000	$ 2,415	$ 2,745	$ 5,160
Restructuring costs paid	(2,114)	(534)	(2,648)
Accrued restructuring costs at August 31, 2001	$ 301	$ 2,211	$ 2,512

As of August 31, 2001, 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 its 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, the Company reassessed its 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.

15. STATEMENTS OF CASH FLOWS

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

YEAR ENDED AUGUST 31,	***2001***	***2000***	***1999***
Cash paid for:			
Income taxes	$ 1,140	$ (250)	$ 22,701
Interest	5,927	7,353	9,219
Fair value of assets acquired	$ 4,432	$ 21,444	$ 19,025
Cash paid for net assets	(4,432)	(21,444)	(19,025)
Liabilities assumed from acquisitions	$ --	$ --	$ --
Tax effect of exercise of affiliate stock options	$ 25	$ 557	$ 1,320

Non-Cash Investing and Financing Activities

On September 1, 2000, the Company contributed substantially all of the assets of its Personal Coaching division to Franklin Covey Coaching, LLC (Note 18), a joint venture formed to provide coaching services. The total value of the assets contributed to form Franklin Covey Coaching, LLC was $18.2 million, net of cash contributed to the joint venture.

In connection with the credit agreement obtained during fiscal 2001 (Note 5), the Company acquired $33.6 million of notes receivable from the participants of the management common stock loan program, which was previously guaranteed by the Company. The corresponding liability was recorded as a component of long-term debt in the accompanying consolidated balance sheet at August 31, 2001. In addition, due to current economic and entity specific factors, the Company recorded a $1.1 million non-cash reserve against the notes receivable from the participants of the loan program.

As of August 31, 2001 and 2000, the Company had accrued preferred dividends totaling $2.1 million and $2.0 million, respectively. Subsequent to August 31, 2001, the Company paid the $2.1 million accrued dividend with additional shares of preferred stock. The accrued dividend at August 31, 2000 was paid during fiscal 2001 with cash.

In connection with the acquisition of DayTracker.com in December 1999 (Note 18), the Company issued $6.0 million of notes payable. The notes payable are due and payable in annual installments through December 2001 (Note 5).

During fiscal 2000, the Company sold 121,250 shares of its common stock to a former CEO of the Company in consideration for a $0.9 million promissory note.

At August 31, 2000 and 1999, the Company had accrued $0.7 million and $15.9 million, respectively, for earnout payments in connection with the acquisition of certain entities.

During fiscal 1999, the Company financed the acquisition of certain software licenses with a note payable to the software vendor for $5.9 million.

16. SEGMENT INFORMATION

Reportable Segments

As part of its restructuring initiatives during fiscal 2000, the Company adopted a channel-based view of its operations and has aligned its business operations into the following business segments:

Retail Stores – Includes the sales and operational results of the Company's 164 domestic retail stores. Although retail store sales primarily consist of products such as planners and handheld electronic devices, virtually any component of the Company's leadership and productivity solutions can be purchased through the retail store channel.

Catalog/eCommerce – This operating segment includes the sales and operating results of the Company's catalog operation and its Internet web site at www.franklincovey.com. Nearly all of the Company's products and services can be purchased through these channels.

Organizational Sales Group (OSG) – The organizational sales group is primarily responsible for the sale and delivery of leadership, productivity, sales performance, and communication training seminars to corporations and certain other organizational clients.

Educational – The educational channel includes the sales and operating results of Premier, a subsidiary that focuses on productivity and effectiveness tools for students and teachers, and includes sales of both products and training to educational institutions from elementary schools to colleges and universities. Operating results of this channel are primarily dependent upon the seasonal sales pattern of Premier, which recognizes the majority of its sales during the Company's fourth fiscal quarter.

Other – The "other" channel consists primarily of wholesale, government, personal coaching, and commercial printing operations. Financial results from the "other" channel group were affected by the contribution of personal coaching assets to form Franklin Covey Coaching LLC, effective September 1, 2000, and the sale of commercial printing operations at Franklin Covey Printing, which occurred during fiscal 2000.

The Company's chief operating decision maker is the CEO. Each of the reportable segments and corporate support departments has an executive vice-president who reports directly to the CEO. The primary measurement tool in segment performance analysis is earnings before interest, taxes, depreciation, and amortization ("EBITDA"), which also approximates cash flows from the operating segments and may not be calculated as similarly titled amounts presented by other companies. The calculation of EBITDA includes the impact of stock option purchase and relocation costs in fiscal 2000 and the equity in earnings of Franklin Covey Coaching, LLC, a newly formed joint venture that began operations on September 1, 2000. Restructuring costs recorded in fiscal 1999 and fiscal 2000 were excluded in the calculation of EBITDA for those respective periods.

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

SEGMENT INFORMATION
(in thousands)

	Reportable Segments							
Year ended August 31, 2001	Retail Stores	Catalog/ eCommerce	OSG	Educational	International	Other	Corporate, Adjustments and Eliminations	Consolidated
Sales to external customers	$ 151,943	$ 90,450	$ 84,723	$ 91,037	$ 51,851	$ 55,329		$ 525,333
Intersegment sales						16,957	$ (16,957)	
Gross margin	77,027	50,922	58,690	51,842	34,484	28,438	(2,830)	298,573
EBITDA	22,093	26,233	16,742	17,743	6,164	(5,952)	(42,349)	40,674
Depreciation	8,283	513	1,297	1,432	1,044	2,685	10,927	26,181
Amortization	114		2,524	4,301	536	3,710	8,513	19,698
Capital expenditures	16,305	575	1,402	2,162	1,318	3,334	1,931	27,027
Segment assets	30,807	347	14,949	114,316	24,137	62,224	288,289	535,069
Year ended August 31, 2000								
Sales to external customers	$ 163,305	$ 110,543	$ 85,977	$ 85,348	$ 50,870	$ 106,942		$ 602,985
Intersegment sales						25,718	$ (25,718)	
Gross margin	86,021	54,248	58,205	48,146	32,729	45,484	3,025	327,858
Stock option purchase and relocation costs							11,227	11,227
EBITDA	39,840	25,049	16,352	16,777	2,080	(3,388)	(46,249)	50,461
Depreciation	6,304	293	780	1,102	890	2,601	12,220	24,190
Amortization	607	324	2,600	4,188	686	4,467	8,105	20,977
Significant non-cash items:								
Restructuring charge reversals							(4,946)	(4,946)
Capital expenditures	5,505	365	1,373	2,262	2,488	2,578	9,952	24,523
Segment assets	24,189	414	14,895	113,771	24,245	75,584	339,381	592,479
Year ended August 31, 1999								
Sales to external customers	$ 140,850	$ 102,335	$ 77,496	$ 70,798	$ 50,611	$ 129,506		$ 571,596
Intersegment sales						33,669	$ (33,669)	
Gross margin	77,374	57,530	52,894	41,042	30,922	49,694	(500)	308,956
EBITDA	35,879	36,617	15,586	17,568	3,233	6,651	(38,746)	76,788
Depreciation	5,688	328	483	736	744	2,459	10,361	20,799
Amortization	1,412		2,431	3,221	1,318	3,503	6,855	18,740
Significant non-cash items:								
Restructuring charge							16,282	16,282
Loss on impaired assets			1,555		2,180	6,172	6,652	16,559
Capital expenditures	4,178	29	671	1,596	2,647	895	12,980	22,996
Segment assets	20,373	361	15,173	96,080	22,249	73,472	395,595	623,303

The primary measurement tool in segment performance analysis is EBITDA. Interest expense is primarily generated at the corporate level and is 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. Likewise, the restructuring charges recorded in fiscal 1999 and fiscal 2000 were not allocated to the reporting segments in order to enhance comparability between periods. A reconciliation of reportable segment EBITDA to consolidated EBITDA is presented below (in thousands):

YEAR ENDED AUGUST 31,	***2001***	***2000***	***1999***
Reportable segment			

EBITDA	$ 83,023	$ 96,710	$ 115,534
Corporate expenses	(42,349)	(35,408)	(37,701)
Reserve on management common stock loan program	1,052		
Stock option purchase and relocation costs		(11,227)	
Intercompany rent charges	5,712	6,652	6,844
Other	(6,764)	(6,266)	(7,889)
Consolidated EBITDA	$ 40,674	$ 50,461	$ 76,788

The majority of the increase in corporate expenses was due to a change in allocation of certain manufacturing costs that was initiated during fiscal 2001. Due to the nature of the allocation change, it was impractical to restate prior periods in the foregoing table.

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

YEAR ENDED AUGUST 31,	***2001***	***2000***	***1999***
Reportable segment assets	$246,780	$253,098	$227,708
Corporate assets	321,359	350,475	444,296
Intercompany accounts receivable..	(33,070)	(11,094)	(48,702)
Consolidated assets	$535,069	$592,479	$623,302

Enterprise-Wide Information

The Company's revenues are derived primarily from the United States. However, the Company operates direct offices or contracts with licensees to provide products and services to various countries throughout the world. The Company's consolidated revenues and long-lived assets by geographic region are as follows (in thousands):

YEAR ENDED AUGUST 31,	***2001***	***2000***	***1999***
Sales:			
United States	$462,943	$541,250	$511,484
Americas	30,799	29,153	24,804
Japan/Greater China	16,567	14,585	16,692
Europe/Middle East	8,704	8,446	8,515
Australia	3,108	7,032	6,737
Others	3,212	2,519	3,364
	$525,333	$602,985	$571,596
Long-Lived Assets:			
United States	$347,895	$379,323	$393,354
Americas	14,033	11,434	9,722
Japan/Greater China	6,142	7,038	6,346
Europe/Middle East	396	503	558
Australia	926	1,146	1,677
	$369,392	$399,444	$411,657

Amounts reported under the "Americas" caption include North and South America except the United States. The Australia caption includes information from Australia, New Zealand, and neighboring countries such as Indonesia and Malaysia. Intersegment sales are immaterial and eliminated upon consolidation.

17. MANAGEMENT COMMON STOCK LOAN PROGRAM

During fiscal 2000, the Company implemented an incentive-based compensation program that included a loan program from external lenders to certain management personnel for the purpose of purchasing shares of the Company's common stock. The program gave management of the Company the opportunity to purchase shares of the Company's common stock on the open market, and from shares purchased by and from the Company, by borrowing on a full-recourse basis from the external lenders. The loan program closed during fiscal 2001 with 3,825,000 shares purchased for a total cost of $33.6 million. Although interest accrues 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 5), the Company recorded the notes receivable from participants of the program as a component of shareholders' equity in the accompanying fiscal 2001 consolidated balance sheet. Under terms of the new credit agreement, the Company will now be the lender on these full-recourse notes from the participants of the loan program. The corresponding liability was included as a component of long-term debt in the accompanying fiscal 2001 consolidated balance sheet. At August 31, 2001, the participant loans exceeded the value of the common stock held by the participants by $18.9 million. All participants have agreed to repay the Company for any loss incurred on their loans. The Company regularly evaluates the creditworthiness of participants and their ability to repay the loans. In fiscal 2001, due to economic and entity specific factors, the Company established a loan loss reserve by recording a non-cash charge of $1.1 million, which was included in the operating results of the Company for fiscal 2001.

In addition, the Company paid $2.2 million to the previous lender for interest on behalf of the loan participants. The participants will repay this amount to the Company when the loans, including all accrued interest, mature in March 2005. Accordingly, this transaction was recorded as a component of notes and interest receivable from sales of common stock to related parties in the accompanying consolidated balance sheet for fiscal 2001.

18. ACQUISITION AND DIVESTING ACTIVITIES

Fiscal 2001

Effective September 1, 2000, the Company entered into a joint venture agreement with American Marketing Systems, Inc. ("AMS"), a significant customer of the Company's Personal Coaching division. The new company, Franklin Covey Coaching, LLC, will continue to provide personal coaching services for the Company's customers. Under terms of the joint venture agreement, the Company and AMS each own 50 percent of Franklin Covey Coaching, LLC and are equally represented in the management of the new company. The terms of the joint venture agreement also require coaching earnings on the Company's programs to achieve specified thresholds over the next four years, or the agreement could be subject to termination at the option of AMS. The Company contributed substantially all of the net assets of the Personal Coaching division to form the new entity, which resulted in a contribution basis difference of approximately $9.0 million. The basis difference will be amortized over a 20-year period and will offset a portion of the Company's share of Franklin Covey Coaching's earnings. The Company expects that the new venture will broaden the curricula and services currently offered in order to grow the personal coaching business over the long term, while maintaining a substantial portion of the Company's current earnings from coaching services. The Company's share of the joint venture's earnings was reported as "equity in earnings of unconsolidated subsidiary" in the accompanying consolidated statement of operations for fiscal 2001.

During April 2001, the Company 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.

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. The Company has retained printing operations necessary for the production of its 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. Net cash proceeds to the Company from the sale totaled $6.4 million. The note payable is secured by property and other assets specified in the purchase agreement. The Company also recognized a $0.3 million gain from the sale of these assets, which is included as a component of net other expense in the accompanying consolidated statement of operations for the fiscal year ended August 31, 2000.

In December 1999, the Company purchased a majority interest in DayTracker.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 are being amortized on a straight-line basis over five years. The acquired web site and its on-line scheduling and organizational services can be accessed on the Internet at www.franklinplanner.com.

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 is 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.

Fiscal 1999

In January 1999, the Company acquired the assets of Khalsa Associates for $2.7 million in cash. Khalsa Associates is a leading sales training company. The acquisition was accounted for using the purchase method of accounting and resulted in $2.7 million of goodwill and intangible assets.

19. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

20. SUBSEQUENT EVENTS

Sale of Premier Agendas

On November 13, 2001, the Company signed a definitive agreement to sell Premier Agendas, a wholly owned subsidiary that provides productivity and learning solutions to the educational industry. The sales price is $152.5 million in cash. In addition, the Company will retain approximately $13.0 million of Premier's working capital. The transaction is subject to regulatory approval and other customary closing conditions. The Company expects to recognize a significant gain from the sale of Premier and anticipates that the sale will be completed during the second quarter of fiscal 2002. The Company anticipates utilizing the majority of the proceeds of the sale to pay the term loan and revolving line of credit in full (Note 5), settle the $4.6 million interest rate swap liability (Note 7), and to fund a tender offer for shares of the Company's common stock (see below). Although a definitive agreement has been signed for the sale of Premier, there can be no assurance that the sale will be completed for the disclosed price and during the expected timeframe.

Tender Offer

On November 26, 2001, the Company filed a tender offer statement with the Securities and Exchange Commission to purchase up to 7,333,333 shares of its common stock at a purchase price of $6.00 per share. The tender offer is subject to the completion of the sale of Premier and subsequent retirement of the Company's existing credit facilities, as well as other customary conditions set forth in the tender offer statement.

Effects of September 11, 2001 Terrorist Attacks

On September 11, 2001, major terrorist attacks occurred in New York City and Washington, D.C. Although the economy in the United States was already slowing prior to September 11, 2001, the magnitude of these attacks was unprecedented in their effects upon the United States and its economy. Immediately following the attacks, a series of events occurred, including the closure of airports and shopping malls, which had a material impact upon the Company's operations during the first quarter of fiscal 2002. The Company was not aware of any significant instances of destruction or impairment of its assets, but the inability of sales and training personnel to travel and stores to open in certain mall locations, had adverse financial consequences to the Company during the first quarter of fiscal 2002.

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

None.

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 11, 2002. 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 11, 2002.

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 11, 2002.

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 11, 2002.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) Documents Filed

1. Financial Statements. The following Consolidated Financial Statements of the Company and Report of Independent Public Accountants or the year ended August 31, 2001, are included herewith:

- Report of Independent Public Accountants
- Consolidated Balance Sheets at August 31, 2001 and 2000
- Consolidated Statements of Operations and Comprehensive Loss for the years ended August 31, 2001, 2000, and 1999
- Consolidated Statements of Shareholders' Equity for the years ended August 31, 2001, 2000 and 1999
- Consolidated Statements of Cash Flows for the years ended August 31, 2001, 2000 and 1999
- 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)	
10.4	Forms of Nonstatutory Stock Options	(1)	
10.5	Amended and Restated 2000 Employee Stock Purchase Plan	(6)	
10.6	Limited Liability Company Agreement of Franklin Covey Coaching LLC, dated September 1, 2000	(7)	
10.7	Employment Agreement between Franklin Covey Co. and Robert A. Whitman	(8)	
10.8	Waiver of Breach of Covenant, between Franklin Covey Co. and Bank One, NA and Zions First National Bank, dated April 1, 2001	(9)	

10.9	Agreement for Information Technology Services between each of Franklin Covey Co., Electronic Data Systems Corporation and EDS Information Services LLC, dated April 1, 2001	(10)	
10.10	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	(10)	
10.11	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	(10)	
10.12	Interest Transfer Agreement between Bank One, NA and Franklin Covey Co., dated May 3, 2001	(10)	
10.13	Fourth Amendment to Facility and Guaranty Agreement among Franklin Covey Co., Bank One, NA as Agent, and the Financial Institutions Signatory Hereto	(10)	
10.14	Credit Agreement among Franklin Covey Co., and Bank One, NA, Zions First National Bank, and Banc One Capital Markets,Inc., dated July 10, 2001		**
10.15	Purchase Agreement By and Among Franklin Covey Co., Franklin Covey Canada Ltd., School Specialty, Inc., and 3956831 Canada, Inc., dated November 13, 2001		**
21	Subsidiaries of the Registrant		**
23	Consent of Independent Public Accountants		**

(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 10K/A filed January 11, 2001, for the year ended August 31, 2000.
(9) Incorporated by reference to Report on Form 10-Q filed April 10, 2001, for the quarter ended February 24, 2001.
(10) Incorporated by reference to Report on Form 10-Q filed July 10, 2001, for the quarter ended May 26, 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.

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 29, 2001.

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.

Signature	Title	Date
/s/ ROBERT A. WHITMAN Robert A. Whitman	Chairman of the Board and Chief Executive Officer	November 29, 2001
/s/ HYRUM W. SMITH Hyrum W. Smith	Vice-Chairman of the Board	November 29, 2001
/s/ STEPHEN R. COVEY Stephen R. Covey	Vice-Chairman of the Board	November 29, 2001
/s/ STEPHEN M. R. COVEY Stephen M. R. Covey	Executive Vice President and Director	November 29, 2001
/s/ STEPHEN D. YOUNG Stephen D. Young	Senior Vice President, Controller and Chief Accounting Officer	November 29, 2001
/s/ ROBERT H. DAINES Robert H. Daines	Director	November 29, 2001
/s/ E. J. "JAKE" GARN E. J. "Jake" Garn	Director	November 29, 2001
/s/ DENNIS G. HEINER Dennis G. Heiner	Director	November 29, 2001
/s/ BRIAN A. KRISAK Brian A. Krisak	Director	November 29, 2001
/s/ DONALD J. MCNAMARA Donald J. McNamara	Director	November 29, 2001
/s/ JOEL C. PETERSON	Director	November 29, 2001

Joel C. Peterson

/s/ E. KAY STEPP	Director	November 29, 2001

E. Kay Stepp

CREDIT AGREEMENT

DATED AS OF JULY 10, 2001

AMONG

FRANKLIN COVEY CO.,

THE LENDERS,

BANK ONE, NA
AS AGENT AND LC ISSUER

ZIONS FIRST NATIONAL BANK
AS SWING LINE LENDER

BANC ONE CAPITAL MARKETS, INC.
AS LEAD ARRANGER AND SOLE BOOK RUNNER

CREDIT AGREEMENT

This Agreement, dated as of July 10, 2001, is among FRANKLIN COVEY CO., a Utah corporation, the Lenders, BANK ONE, NA, a national banking association having its principal office in Chicago, Illinois ("Bank One"), acting in the capacity as Agent for the Lenders, BANK ONE, acting in the capacity as LC Issuer, and ZIONS FIRST NATIONAL BANK ("Zions"), acting in the capacity as Swing Line Lender. The parties hereto agree as follows:

ARTICLE I

DEFINITIONS

As used in this Agreement:

"Account Debtor" means, collectively and severally, the obligor or obligors on an account receivable.

"Acquisition" means any transaction, or any series of related transactions, consummated on or after the date of this Agreement, by which the Borrower or any of its Subsidiaries (i) acquires any going business or all or substantially all of the assets of any firm, corporation or limited liability company, or division thereof, whether through purchase of assets, merger or otherwise or (ii) directly or indirectly acquires (in one transaction or as the most recent transaction in a series of transactions) at least a majority (in number of votes) of the securities of a corporation which have ordinary voting power for the election of directors (other than securities having such power only by reason of the happening of a contingency) or a majority (by percentage or voting power) of the outstanding ownership interests of a partnership or limited liability company.

"Affiliate" of any Person means any other Person directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if the controlling Person owns 10% or more of any class of voting securities (or other ownership interests) of the controlled Person or possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through ownership of stock, by contract or otherwise.

"Agent" means Bank One in its capacity as contractual representative of the Lenders pursuant to Article X, and not in its individual capacity as a Lender, and any successor Agent appointed pursuant to Article X.

"Aggregate Available Revolving Credit Commitment" means at any date the Aggregate Revolving Credit Commitment on such date minus the Swing Line Sublimit on such date.

"Aggregate Outstanding Combined Credit Exposure" means at any date the aggregate of the Outstanding Combined Credit Exposure of all the Lenders.

"Aggregate Outstanding Revolving Credit Exposure" means at any date the aggregate of the Outstanding Revolving Credit Exposure of all the Lenders.

"Aggregate Revolving Credit Commitment" means the aggregate of the Revolving Credit Commitments of all the Lenders, as reduced from time to time pursuant to the terms hereof, with the "Aggregate Revolving Credit Commitment" on the Effective Date being $45,000,000.

"Agreement" means this credit agreement, as it may be amended or modified and in effect from time to time.

"Agreement Accounting Principles" means generally accepted accounting principles as in effect from time to time, applied in a manner consistent with that used in preparing the financial statements referred to in Section 5.4.

"Alternate Base Rate" means, for any day, a rate of interest per annum equal to the higher of (i) the Prime Rate for such day and (ii) the sum of the Federal Funds Effective Rate for such day plus 1/2% per annum.

"Annex" refers to an annex to this Agreement, unless another document is specifically referenced.

"Applicable Fee Rate" means, at any time, the percentage rate per annum at which commitment fees are accruing on the unused portion of the Aggregate Revolving Credit Commitment at such time as set forth in the Pricing Schedule.

"Applicable Margin" means, with respect to Loans of any Type at any time, the percentage rate per annum which is applicable at such time with respect to Loans of such Type as set forth in the Pricing Schedule.

"Applicable Percentage" means for purposes of calculating the mandatory prepayment required pursuant to Section 2.7(iv)(c) for any fiscal year: (i) if on the last day of such fiscal year the outstanding principal balance of the Term Loan exceeded 50% of the original principal balance of the Term Loan, 75%, and (ii) if on the last day of such fiscal year the outstanding principal balance of the Term Loan did not exceed 50% of the original principal balance of the Term Loan, 50%.

"Arranger" means Banc One Capital Markets, Inc., a Delaware corporation, and its successors, in its capacity as Lead Arranger and Sole Book Runner.

"Article" means an article of this Agreement unless another document is specifically referenced.

"Authorized Officer" means any of the following Persons during such time as they are officers of the Borrower: Robert Whitman, Richard R. Putnam, Val John Christensen, J. Scott Nielsen or Steve Young, acting singly.

"Bank One" means Bank One, NA, a national banking association having its principal office in Chicago, Illinois, in its individual capacity, and its successors.

"Borrower" means Franklin Covey Co., a Utah corporation, and its successors and assigns.

"Borrower Collateral Documents" means, collectively, the Borrower Security Agreement, all Real Property Collateral Documents to which the Borrower is party and all other documents, instruments and agreements required to be delivered by the Borrower from time to time pursuant to Section 2.20, as the same may be amended or modified and in effect from time to time.

"Borrower-Owned Pledged Shares" is defined in the Borrower Security Agreement.

"Borrower Security Agreement" means a pledge and security agreement in the form of that attached hereto as **Exhibit A** or such other form as may be acceptable to the Agent, as the same may be amended or modified and in effect from time to time.

"Borrowing Base" means on any date all Eligible Accounts and Eligible Inventory in which the Agent holds for the benefit of the Credit Providers a first priority, perfected Lien.

"Borrowing Base Certificate" means a report in the form of that attached hereto as **Exhibit B** or such other form as is acceptable to the Agent, duly certified by a Responsible Officer.

"Borrowing Date" means a date on which a Loan is made hereunder.

"Borrowing Notice" is defined in Section 2.8.

"Business Day" means (i) with respect to any borrowing, payment or rate selection of Eurodollar Loans, a day (other than a Saturday or Sunday) on which banks generally are open in Chicago and New York for the conduct of substantially all of their commercial lending activities, interbank wire transfers can be made on the Fedwire system and dealings in United States dollars are carried on in the London interbank market and (ii) for all other purposes, a day (other than a Saturday or Sunday) on which banks generally are open in Chicago for the conduct of substantially all of their commercial lending activities and interbank wire transfers can be made on the Fedwire system.

"Capital Expenditures" means, without duplication, any expenditures for any purchase or other acquisition of any asset which would be classified as a fixed or capital asset on a consolidated balance sheet of the Borrower and its Subsidiaries prepared in accordance with Agreement Accounting Principles excluding (i) the cost of assets acquired with Capitalized Lease Obligations, and (ii) expenditures of insurance proceeds to rebuild or replace any asset after a casualty loss.

"Capitalized Lease" of a Person means any lease of Property by such Person as lessee which would be capitalized on a balance sheet of such Person prepared in accordance with Agreement Accounting Principles.

"Capitalized Lease Obligations" of a Person means the amount of the obligations of such Person under Capitalized Leases which would be shown as a liability on a balance sheet of such Person prepared in accordance with Agreement Accounting Principles.

"Cash Equivalent Investments" means (i) short-term obligations of, or fully guaranteed by, the United States of America, (ii) commercial paper rated A-1 or better by S&P or P-1 or better by Moody's, (iii) demand deposit accounts maintained in the ordinary course of business, and (iv) certificates of deposit issued by and time deposits with commercial banks (whether domestic or foreign) having capital and surplus in excess of $100,000,000; provided in each case that the same provides for payment of both principal and interest (and not principal alone or interest alone) and is not subject to any contingency regarding the payment of principal or interest.

"Change in Control" means: (i) with respect to the Borrower, the acquisition by any Person, or two or more Persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934) of 20% or more of the outstanding shares of voting stock of the Borrower, and (ii) with respect to any Material Subsidiary, if such Subsidiary shall cease to be a Wholly-Owned Subsidiary of the Borrower.

"Code" means the Internal Revenue Code of 1986, as amended, reformed or otherwise modified from time to time.

"Collateral" means, collectively and severally, all property and assets of the Borrower and its Subsidiaries which are at any time subject to a Lien in favor of the Agent for the benefit of the Credit Providers under the Collateral Documents.

"Collateral Shortfall Amount" is defined in Section 8.1.

"Collateral Documents" means, collectively, the Borrower Collateral Documents and the Guarantor Collateral Documents.

"Collateral Value of the Borrowing Base" means at any date:

(i) During the period from the Effective Date to and including November 30, 2001, $45,000,000; and

(ii) At all times thereafter, the sum of:

(a) 80% of the outstanding principal balance of Eligible Accounts included in the Borrowing Base at such date; plus

(b) 25% of the book value of Eligible Inventory consisting of tabs, forms and other supplies and 35% of the book value of all other Eligible Inventory included in the Borrowing Base at such date, in all cases determined in accordance with Agreement Accounting Principles (not to exceed 50% of the aggregate Collateral Value of the Borrowing Base at such date).

"Commitment Schedule" means on any date a schedule setting forth the then current Aggregate Revolving Credit Commitment, the Swing Line Sublimit and, for each Lender, such Lender's current Revolving Credit Commitment, as such amount may be modified from time to time pursuant to the terms hereof, with the Commitment Schedule in effect at the date of this Agreement attached hereto as **Annex 1**.

"Compliance Certificate" means a certificate in the form of that attached hereto as **Exhibit C**, duly executed by the chief financial officer of the Borrower.

"Consolidated Capital Expenditures" means, with reference to any period, the Capital Expenditures of the Borrower and its Subsidiaries calculated on a consolidated basis for such period.

"Consolidated EBITDA" means Consolidated Net Income plus, to the extent deducted from revenues in determining Consolidated Net Income, (i) Consolidated Interest Expense, (ii) expenses for taxes paid or accrued, (iii) depreciation, (iv) amortization, (v) extraordinary losses incurred other than in the ordinary course of business, and (vi) non-cash expenses relating to write downs, reserves and charges with respect to employee notes receivable held by the Borrower associated with executive compensation plans, minus, to the extent included in Consolidated Net Income, (y) extraordinary gains realized other than in the ordinary course of business and (ii) non-cash income relating to write downs, reserves and charges with respect to employee notes receivable held by the Borrower associated with executive compensation plans, all calculated for the Borrower and its Subsidiaries on a consolidated basis.

"Consolidated Funded Indebtedness" means at any time the aggregate dollar amount of Consolidated Indebtedness which has actually been funded and is outstanding at such time, whether or not such amount is due or payable at such time.

"Consolidated Indebtedness" means at any time the Indebtedness of the Borrower and its Subsidiaries calculated on a consolidated basis as of such time.

"Consolidated Interest Expense" means, with reference to any period, the interest expense of the Borrower and its Subsidiaries calculated on a consolidated basis for such period.

"Consolidated Net Income" means, with reference to any period, the net income (or loss) before preferred dividends of the Borrower and its Subsidiaries calculated on a consolidated basis for such period.

"Consolidated Net Worth" means at any time the consolidated stockholders' equity of the Borrower and its Subsidiaries calculated on a consolidated basis as of such time.

"Consolidated Rent Expense" means, with reference to any period, the Rentals of the Borrower and its Subsidiaries calculated on a consolidated basis for such period.

"Consolidated Working Capital" means on any date: (i) the sum of (a) accounts receivable plus the book value of inventory of the Borrower and its Subsidiaries, as shown on the consolidated balance sheet of the Borrower, determined in accordance with Agreement Accounting Principles, minus (ii) accounts payable of the Borrower and its Subsidiaries, as shown on the consolidated balance sheet of the Borrower, determined in accordance with Agreement Accounting Principles.

"Contingent Obligation" of a Person means any agreement, undertaking or arrangement by which such Person assumes, guarantees, endorses, contingently agrees to purchase or provide funds for the payment of, or otherwise becomes or is contingently liable upon, the obligation or liability of any other Person, or agrees to maintain the net worth or working capital or other financial condition of any other Person, or otherwise assures any creditor of such other Person against loss, including, without limitation, any comfort letter, operating agreement, take-or-pay contract or the obligations of any such Person as general partner of a partnership with respect to the liabilities of the partnership.

"Conversion/Continuation Notice" is defined in Section 2.9.

"Controlled Group" means all members of a controlled group of corporations or other business entities and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower or any of its Subsidiaries, are treated as a single employer under Section 414 of the Code.

"Credit Extension" means the funding of a Loan or the issuance of a Facility LC hereunder.

"Credit Extension Date" means the Borrowing Date for a Loan or the issuance date for a Facility LC.

"Credit Providers" means, collectively and severally: (i) the Lenders from time to time party hereto, and (ii) the Agent and the LC Issuer in their capacities as such hereunder.

"Default" means an event described in Article VII.

"Domestic Subsidiary" means a Subsidiary of the Borrower incorporated under the laws of a jurisdiction of the United States and which maintains its chief executive office in the United States.

"Effective Date" means the date upon which this Agreement has been executed by all parties hereto and all conditions precedent to the first Credit Extension hereunder set forth in Section 4.1 have been satisfied.

"Eligible Account" means at any date the gross amount, less discounts, credits or offsets of any nature and less accrued finance charges and delinquency charges, of the accounts receivable owing to the Borrower or a Guarantor by Account Debtors for which each of the following statements is accurate and complete (and the Borrower, by including such account receivable in any computation of the Collateral Value of the Borrowing Base, shall be deemed to represent and warrant to the Agent and the Lenders the accuracy and completeness of such statements):

(i) Said account receivable is a binding and valid obligation of the Account Debtor thereon, in full force and effect and enforceable in accordance with its terms;

(ii) Said account receivable is genuine, in all respects as appearing on its face or as represented in the books and records of the Borrower, and all material information set forth therein is true and correct;

(iii) Said account receivable is free of all material default of any party thereto, counterclaims, offsets and defenses and from any rescission, cancellation or avoidance, and all right thereof, whether by operation of law or otherwise;

(iv) The payment of said account receivable is not more than 60 days from the due date thereof;

(v) Said account receivable is free of material concessions or understandings with the Account Debtor thereon of any kind not disclosed to and approved by the Lender in writing;

(vi) Said account receivable is, and at all times will be, free and clear of all liens, encumbrances, charges, rights and interests of any kind, except in favor of the Agent for the benefit of the Credit Providers;

(vii) Said account receivable is derived from sales made or services rendered to the Account Debtor in the ordinary course of the Borrower’s business;

(viii) The Account Debtor on said account receivable (a) is located within the United Sates of America or the District of Columbia or Canada or, if not so located, is covered by Eximbank insurance or a letter of credit in form and substance acceptable to the Agent, which letter of credit names the Agent for the benefit of the Credit Providers as the beneficiary or which, if issued in favor of the Borrower has been assigned to the Agent for the benefit of the Credit Providers; (b) is not the subject of any bankruptcy or insolvency proceeding, nor has a trustee or receiver been appointed for all or a substantial part of its property, nor has said Account Debtor made an assignment for the benefit of creditors, admitted its inability to pay its debts as they mature or suspended its business; (c) is not a state or federal governmental department, commission, board, bureau or agency ; and (d) is not affiliated, directly or indirectly, with the Borrower, whether as an Affiliate, employee or otherwise;

(ix) Said account receivable did not arise from sales to an Account Debtor as to whom 25% or more of the total accounts receivable owing by such Account Debtor to the Borrower and the Guarantors are delinquent more than 60

days from the due date thereof;

(x) Said account receivable did not arise from sales to an Account Debtor who is located in a jurisdiction in which the Borrower or the Guarantor generating such receivable is not qualified to do business and in good standing or where there exist other legal restrictions on the right of the Borrower or the Guarantor, as applicable, to pursue legal remedies in such jurisdiction against such Account Debtor with respect to such account receivable;

(xi) The Account Debtor on said account receivable has not delivered a check or other form of payment on account thereof which payment is being "held" by the Borrower or the Guarantors for later application against said account receivable; and

(xii) Said account receivable is otherwise satisfactory to the Agent, in its sole discretion.

"Eligible Inventory" means at any date all inventory as defined in the New York Uniform Commercial Code for which each of the following statements is accurate and complete (and the Borrower, by including such inventory in any computation of the Collateral Value of the Borrowing Base, shall be deemed to represent and warrant to the Agent and the Lenders the accuracy and completeness of such statements):

(i) Said inventory is owned by the Borrower or a Guarantor free and clear of all security interest, liens, encumbrances and claims of any third party other than Agent for the benefit of the Credit Providers;

(ii) Said inventory: (a) is located in the States described on **Annex 2**, as such may be amended from time to time by mutual written consent of the Borrower and the Agent, (b) is not located at the home of any employee of the Borrower or any Guarantor, and (c) is not in transit (other than in transit between warehouses and retail stores);

(iii) Said inventory does not consist of raw materials, work-in-process or inventory which the Agent, in its reasonable discretion, deems to be obsolete, unsalable, slow moving, damaged, defective or unfit for further processing; and

(iv) Except as otherwise agreed by the Agent, in its sole discretion, there has been executed and delivered to the Agent such consents to removal of property, bailee letters and consents of third parties as the Agent shall have required and, if said inventory is held by a third party which has issued a negotiable warehouse receipt or other evidence of title thereof, such evidence of title shall have been delivered to the Agent.

"Environmental Laws" means any and all federal, state, local and foreign statutes, laws, judicial decisions, regulations, ordinances, rules, judgments, orders, decrees, plans, injunctions, permits, concessions, grants, franchises, licenses, agreements and other governmental restrictions relating to (i) the protection of the environment, (ii) the effect of the environment on human health, (iii) emissions, discharges or releases of pollutants, contaminants, hazardous substances or wastes into surface water, ground water or land, or (iv) the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, hazardous substances or wastes or the clean-up or other remediation thereof.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and any rule or regulation issued thereunder.

"Escrow Holder" means First American Title Insurance Company, Utah Division, at its offices at 830 East 400 South, Salt Lake City, Utah 84111.

"Escrow Instructions" means escrow instructions delivered to the Escrow Holder in connection with the closing of the transactions contemplated hereby in form and substance acceptable to the Agent.

"Eurodollar Base Rate" means, with respect to a Eurodollar Loan for the relevant Interest Period, the applicable British Bankers' Association Interest Settlement Rate for deposits in U.S. dollars appearing on Reuters Screen FRBD as of 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period, and having a maturity equal to such Interest Period, provided that, (i) if Reuters Screen FRBD is not available to the Agent for any reason, the applicable Eurodollar Base Rate for the relevant Interest Period shall instead be the applicable British Bankers' Association Interest Settlement Rate for deposits in U.S. dollars as reported by any other generally recognized financial information service as of 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period, and having a maturity equal to such Interest Period, and (ii) if no such British Bankers' Association Interest Settlement Rate is available to the Agent, the applicable Eurodollar Base Rate for the relevant Interest Period shall instead be the rate determined by the Agent to be the rate at which Bank One or one of its Affiliate banks offers to place deposits in U.S. dollars with first-class banks in the London interbank market at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period, in the approximate amount of Bank One's relevant Eurodollar Loan and having a maturity equal to such Interest Period.

"Eurodollar Loan" means a Loan which, except as otherwise provided in Section 2.11, bears interest at the applicable Eurodollar Rate.

"Eurodollar Rate" means, with respect to a Eurodollar Loan for the relevant Interest Period, the sum of (i) the quotient of (a) the Eurodollar Base Rate applicable to such Interest Period, divided by (b) one minus the Reserve Requirement (expressed as a decimal) applicable to such Interest Period, plus (ii) the Applicable Margin.

"Excess Cash Flow" means for any fiscal year of the Borrower: (i) Consolidated EBITDA minus (ii) the sum of: (a) Consolidated Capital Expenditures, (b) principal payments made on Consolidated Indebtedness for borrowed money (exclusive of mandatory prepayments made pursuant to Section 2.7(iv)(c) during such fiscal year on account of Excess Cash Flow for the preceding fiscal year), (c) cash interest payments, and (d) cash tax payments, and plus or minus, as applicable (iii) the increase or decrease, as of the last day of such fiscal year from the last day of the immediately preceding fiscal year, in Consolidated Working Capital.

"Excluded Taxes" means, in the case of each Lender or applicable Lending Installation and the Agent, taxes imposed on its overall net income, and franchise taxes imposed on it, by (i) the jurisdiction under the laws of which such Lender or the Agent is incorporated or organized or (ii) the jurisdiction in which the Agent's or such Lender's principal executive office or such Lender's applicable Lending Installation is located.

"Exhibit" refers to an exhibit to this Agreement, unless another document is specifically referenced.

"Existing Credit Agreement" means that certain Credit Agreement dated as of October 8, 1999 by and among the Borrower, the lenders party thereto, Bank One as the Agent for the lenders, Bank One and Zions as the Co-Agents, and Banc One Capital Markets, Inc. as the Lead Arranger and Sole Book Runner, as amended.

"Existing LCs" means those Letters of Credit issued and on the Effective Date outstanding under the Existing Credit Agreement, which Letters of Credit are described on **Annex 3**.

"Existing Premier Agendas Facility" means that certain credit facility evidenced by that certain Business Loan Agreement dated as of March 27, 2000 between Premier Agendas and Bank of America, N.A. and the documents, instruments and agreements executed by Premier Agendas in connection therewith, as amended from time to time.

"Facility LC" is defined in Section 2.19.1.

"Facility LC Application" is defined in Section 2.19.3.

"Facility LC Collateral Account" is defined in Section 2.19.11.

"Facility Termination Date" means May 30, 2004 or any earlier date on which the Aggregate Revolving Credit Commitment is reduced to zero or otherwise terminated pursuant to the terms hereof.

"Federal Funds Effective Rate" means, for any day, an interest rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published for such day (or, if such day is not a Business Day, for the immediately preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations at approximately 10:00 a.m. (Chicago time) on such day on such transactions received by the Agent from three Federal funds brokers of recognized standing selected by the Agent in its sole discretion.

"Final Installment" is defined in Section 2.2(iv).

"Floating Rate" means, for any day, a rate per annum equal to: (i) the Alternate Base Rate for such day plus (ii) the Applicable Margin, in each case changing when and as the Alternate Base Rate changes.

"Floating Rate Loan" means a Loan which, except as otherwise provided in Section 2.11, bears interest at the Floating Rate.

"Foreign Subsidiary" means a Subsidiary of the Borrower which is not incorporated under the laws of a jurisdiction of the United States and which does not maintain its chief executive office in the United States.

"Guarantor" means each of the Initial Guarantors and each other Wholly-Owned Domestic Subsidiary of the Borrower required to execute and deliver a Guaranty and Guarantor Collateral Documents following the Effective Date pursuant to Section 2.20, and its successors and assigns.

"Guarantor Collateral Documents" means, collectively, the Guarantor Security Agreements, the Real Property Collateral Documents to which the Guarantors or any of them are party and all other documents, instruments and agreements required to be delivered by the Guarantors from time to time pursuant to Section 2.20, as the same may be amended or modified and in effect from time to time.

"Guarantor-Owned Pledged Shares" is defined with respect to each Guarantor in such Guarantor's Guarantor Security Agreement.

"Guarantor Security Agreement" means a pledge and security agreement in the form of that attached hereto as **Exhibit D** or such other form as may be acceptable to the Agent, as it may be amended or modified and in effect from time to time.

"Guaranty" means a guaranty in the form of that attached hereto as **Exhibit E** executed by a Guarantor in favor of the Agent, for the ratable benefit of the Credit Providers, or such other form as may be acceptable to the Agent, as it may be amended or modified and in effect from time to time.

"Indebtedness" of a Person means such Person's (i) obligations for borrowed money, (ii) obligations representing the deferred purchase price of Property or services (other than accounts payable arising in the ordinary course of such Person's business payable on terms customary in the trade), (iii) obligations, whether or not assumed, secured by Liens or payable out of the proceeds or production from Property now or hereafter owned or acquired by such Person, (iv) obligations which are evidenced by notes, acceptances, or other instruments, (v) obligations of such Person to purchase securities or other Property arising out of or in connection with the sale of the same or substantially similar securities or Property, (vi) Capitalized Lease Obligations, (vii) any liabilities for accrued and unpaid earnout or similar obligations associated with Acquisitions, (viii) Contingent Obligations, (ix) the dollar amount of any revolving securitization of trade or notes receivable, and (x) any other obligation for borrowed money or other financial accommodation which in accordance with Agreement Accounting Principles would be shown as a liability on the consolidated balance sheet of such Person.

"Initial Guarantors" means those Wholly-Owned Domestic Subsidiaries of the Borrower described on **Annex 4**.

"Initial Installment" is defined in Section 2.2(i).

"Intellectual Property Collateral" is defined: (i) as to the Borrower, in the Borrower Security Agreement, and (ii) as to each Guarantor, in such Guarantor's respective Guarantor Security Agreement.

"Interest Period" means, with respect to a Eurodollar Loan, a period of one, two, three or six months commencing on a Business Day selected by the Borrower pursuant to this Agreement. Such Interest Period shall end on the day which corresponds numerically to such date one, two, three or six months thereafter, *provided, however*, that if there is no such numerically corresponding day in such next, second, third or sixth succeeding month, such Interest Period shall end on the last Business Day of such next, second, third or sixth succeeding month. If an Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall end on the next succeeding Business Day, *provided, however*, that if said next succeeding Business Day falls in a new calendar month, such Interest Period shall end on the immediately preceding Business Day.

"Interim Equal Installments" is defined in Section 2.2(ii).

"Investment" of a Person means any loan, advance (other than commission, travel and similar advances to officers and employees made in the ordinary course of business), extension of credit (other than accounts receivable arising in the ordinary course of business on terms customary in the trade) or contribution of capital by such Person; stocks, bonds, mutual funds, partnership interests, notes, debentures or other securities owned by such Person; any deposit accounts and certificate of deposit owned by such Person; and structured notes, derivative financial instruments and other similar instruments or contracts owned by such Person.

"LC Fee" is defined in Section 2.19.4.

"LC Issuer" means Bank One, in its capacity as issuer of Facility LCs hereunder and, to the extent relevant to the Existing Letters of Credit, Zions, in its capacity as the issuer thereof under the Existing Credit Agreement.

"LC Obligations" means, at any time, the sum, without duplication, of: (i) the aggregate undrawn stated amount under all Facility LCs outstanding at such time plus (ii) the aggregate unpaid amount at such time of all Reimbursement Obligations.

"LC Payment Date" is defined in Section 2.19.5.

"Lenders" means the lending institutions listed on the signature pages of this Agreement and their respective successors and assigns and shall include, unless otherwise specified, the Swing Line Lender in its capacity as such.

"Lending Installation" means, with respect to a Lender or the Agent, the office, branch, subsidiary or affiliate of such Lender or the Agent listed on the signature pages hereof or on a Schedule or otherwise selected by such Lender or the Agent pursuant to Section 2.17.

"Letter of Credit" of a Person means a letter of credit or similar instrument which is issued upon the application of such Person or upon which such Person is an account party or for which such Person is in any way liable.

"Leverage Ratio" means the ratio calculated pursuant to Section 6.23.2.

"Lien" means any lien (statutory or other), mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, the interest of a vendor or lessor under any conditional sale, Capitalized Lease or other title retention agreement).

"Loan" means each Revolving Loan made pursuant to Section 2.1, the Term Loan or portions thereof outstanding as different Types made pursuant to Section 2.2 and each Swing Line Loan made pursuant to Section 2.3, and shall include any conversion or continuation of any Revolving Loan or portion of the Term Loan held by such Lender to another Type.

"Loan Documents" means this Agreement and any Notes issued pursuant to Section 2.13, the Facility LC Applications, the Borrower Collateral Documents, the Guaranties, the Guarantor Collateral Documents and all documents, instruments and agreements evidencing the Rate Management Obligations.

"Material Adverse Effect" means a material adverse effect on (i) the business, Property, condition (financial or otherwise), results of operations, or prospects of the Borrower and its Subsidiaries taken as a whole, (ii) the ability of the Borrower to perform its obligations under the Loan Documents to which it is a party, (iii) the validity or enforceability of any of the Loan Documents or the rights or remedies of the Agent, the LC Issuer or the Lenders thereunder, or (iv) the perfection or priority of the Agent's Lien for the benefit of the Credit Providers in the Collateral.

"Material Subsidiary" means a Wholly-Owned Subsidiary of the Borrower which the Agent, in its sole and absolute discretion, determines from time to time bears a material relationship to the business, operations, affairs, financial condition, assets, properties or prospects of the Borrower and its Subsidiaries taken as a whole.

"Modify" and "Modification" are defined in Section 2.19.1.

"Moody's" means Moody's Investors Service, Inc.

"Multiemployer Plan" means a Plan maintained pursuant to a collective bargaining agreement or any other arrangement to which the Borrower or any member of the Controlled Group is a party to which more than one employer is obligated to make contributions.

"Net Cash Proceeds" means with respect the to sale or other disposition of any Property or the issuance of any debt or equity securities, the gross cash proceeds received less reasonable and customary transaction costs (including any taxes due as a result of any gain on the sale or other disposition of such Property).

"Non-U.S. Lender" is defined in Section 3.5(iv).

"Note" is defined in Section 2.13.

"Obligations" means all unpaid principal of and accrued and unpaid interest on the Loans, all Reimbursement Obligations, all accrued and unpaid fees and all expenses, reimbursements, indemnities and other obligations of the Borrower to the Lenders or to any Lender, the Agent, the LC Issuer or any indemnified party arising under the Loan Documents, including, without limitation, all Rate Management Obligations of the Borrower or any Guarantor to any Lender.

"Off-Balance Sheet Liability" of a Person means (i) any repurchase obligation or liability of such Person with respect to accounts or notes receivable sold by such Person, (ii) any liability under any Sale and Leaseback Transaction which is not a Capitalized Lease, (iii) any liability under any so-called "synthetic lease" transaction entered into by such Person, or (iv) any obligation arising with respect to any other transaction which is the functional equivalent of or takes the place of borrowing but which does not constitute a liability on the balance sheets of such Person, but excluding from this clause (iv) Operating Leases.

"Operating Lease" of a Person means any lease of Property (other than a Capitalized Lease) by such Person as lessee which has an original term (including any required renewals and any renewals effective at the option of the lessor) of one year or more.

"Other Taxes" is defined in Section 3.5(ii).

"Outstanding Combined Credit Exposure" means for any Lender at any date the sum of: (i) such Lender's Outstanding Revolving Credit Exposure, plus (ii) an amount equal to such Lender's Pro Rata Share of the outstanding principal balance of the Term Loan.

"Outstanding Revolving Credit Exposure" means for any Lender at any date the sum of: (i) such Lender's Pro Rata Share of Revolving Loans outstanding, plus (ii) an amount equal to such Lender's Pro Rata Share of the LC Obligations and plus (iii) an amount equal to such Lender's Pro Rata Share of Swing Line Loans outstanding.

"Participants" is defined in Section 12.2.1.

"Payment Date" means the last day of each calendar month.

"PBGC" means the Pension Benefit Guaranty Corporation, or any successor thereto.

"Permitted Real Property Encumbrances" means Liens permitted under subsections (i), (ii) and (iv) of Section 6.15 and other Liens that the Agent has agreed will be acceptable to be listed as exceptions to title in the lender's title policies to be issued to the Agent insuring the deeds of trust and other security instruments covering the Real Properties, as set forth in the Escrow Instructions.

"Person" means any natural person, corporation, firm, joint venture, partnership, limited liability company, association, enterprise, trust or other entity or organization, or any government or political subdivision or any agency, department or instrumentality thereof.

"Plan" means an employee pension benefit plan which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code as to which the Borrower or any member of the Controlled Group may have any liability.

"Premier Agendas" means Premier Agendas, Inc., a direct, Wholly-Owned Subsidiary of the Borrower.

"Pricing Schedule" means **Annex 5** attached hereto, as the same may be amended from time to time.

"Prime Rate" means a rate per annum equal to the prime rate of interest announced from time to time by Bank One or its parent (which is not necessarily the lowest rate charged to any customer), changing when and as said prime rate changes.

"Property" of a Person means any and all property, whether real, personal, tangible, intangible, or mixed, of such Person, or other assets owned, leased or operated by such Person.

"Pro Rata Share" shall mean for any Lender, the ratio, expressed as a percentage, which such Lender's Outstanding Combined Credit Exposure bears to the Aggregate Outstanding Combined Credit Exposure; provided, however, that following the occurrence of an Event of Default and acceleration of the Obligations, the term "Pro Rata Share" shall mean for any Lender, the ratio, expressed as a percentage, which such Lender's Outstanding Combined Credit Exposure plus all Rate Management Obligations held by such Lender included in the "Obligations" bears to the Aggregate Outstanding Combined Credit Exposure plus all Rate Management Obligations held by all Lenders included in the "Obligations".

"Purchasers" is defined in Section 12.3.1.

"Rate Management Transaction" means any transaction (including an agreement with respect thereto) now existing or hereafter entered into between the Borrower and any Lender or Affiliate thereof which is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, forward transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions) or any combination thereof, whether linked to one or more interest rates, foreign currencies, commodity prices, equity prices or other financial measures.

"Rate Management Obligations" of a Person means any and all obligations of such Person, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor), under (i) any and all Rate Management Transactions, and (ii) any and all cancellations, buy backs, reversals, terminations or assignments of any Rate Management Transactions.

"Real Property" means, collectively, each fee owned and leasehold parcel of real property pledged from time to time to the Agent for the benefit of the Credit Providers for the Obligations.

"Real Property Collateral Documents" means all deeds of trust, mortgages, security deeds and other documents of encumbrance covering Real Property and all other documents, instruments and agreements, including, without limitation, environmental indemnities, estoppel certificates, attornment agreements, subordination agreements, title policies (with acceptable endorsements and reinsurance coverage) and consents and acknowledgments of third parties is deemed necessary or desirable by the Agent to obtain for the Agent for the benefit of the Credit Providers a Lien on the Real Property subject only to Permitted Real Property Encumbrances.

"Regulation D" means Regulation D of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor thereto or other regulation or official interpretation of said Board of Governors relating to reserve requirements applicable to member banks of the Federal Reserve System.

"Regulation U" means Regulation U of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by banks for the purpose of purchasing or carrying margin stocks applicable to member banks of the Federal Reserve System.

"Reimbursement Obligations" means at any date the aggregate of all obligations of the Borrower then outstanding under Section 2.19 to reimburse the LC Issuer for amounts paid by the LC Issuer in respect of any one or more drawings under Facility LCs.

"Rentals" of a Person means the aggregate fixed amounts payable by such Person under any Operating Lease.

"Reportable Event" means a reportable event as defined in Section 4043 of ERISA and the regulations issued under such section, with respect to a Plan, excluding, however, such events as to which the PBGC has by regulation waived the requirement of Section 4043(a) of ERISA that it be notified within 30 days of the occurrence of such event, provided, however, that a failure to meet the minimum funding standard of Section 412 of the Code and of Section 302 of ERISA shall be a Reportable Event regardless of the issuance of any such waiver of the notice requirement in accordance with either Section 4043(a) of ERISA or Section 412(d) of the Code.

"Reports" is defined in Section 9.6.

"Required Lenders" means Lenders in the aggregate having at least 66-2/3% of the Aggregate Outstanding Combined Credit Exposure.

"Reserve Requirement" means, with respect to an Interest Period, the maximum aggregate reserve requirement (including all basic, supplemental, marginal and other reserves) which is imposed under Regulation D on Eurocurrency liabilities.

"Response Date" is defined in Section 2.19.

"Revolving Credit Commitment" means, for each Lender on any date, the obligation of such Lender to make Revolving Loans and participate in Swing Line Loans and Facility LCs in an aggregate dollar amount not exceeding the amount set forth on the then current Commitment Schedule, as it may be modified as a result of any assignment that has become effective pursuant to Section 12.3.2 or as otherwise modified from time to time pursuant to the terms hereof.

"Revolving Loan" is defined in Section 2.1.

"S&P" means Standard and Poor's Ratings Services, a division of The McGraw Hill Companies, Inc.

"Sale and Leaseback Transaction" means any sale or other transfer of Property by any Person with the intent to lease such Property as lessee.

"Schedule" refers to a specific schedule to this Agreement, unless another document is specifically referenced.

"Section" means a numbered section of this Agreement, unless another document is specifically referenced.

"Single Employer Plan" means a Plan maintained by the Borrower or any member of the Controlled Group for employees of the Borrower or any member of the Controlled Group.

"Subordinated Indebtedness" of a Person means any Indebtedness of such Person the payment of which is subordinated to payment of the Obligations to the written satisfaction of the Agent.

"Subsidiary" of a Person means (i) any corporation more than 50% of the outstanding securities having ordinary voting power of which shall at the time be owned or controlled, directly or indirectly, by such Person or by one or more of its Subsidiaries or by such Person and one or more of its Subsidiaries, or (ii) any partnership, limited liability company, association, joint venture or similar business organization more than 50% of the ownership interests having ordinary voting power of which shall at the time be so owned or controlled. Unless otherwise expressly provided, all references herein to a "Subsidiary" shall mean a Subsidiary of the Borrower.

"Substantial Portion" means, with respect to the Property of the Borrower and its Subsidiaries, Property which (i) represents more than 10% of the consolidated assets of the Borrower and its Subsidiaries as would be shown in the consolidated financial statements of the Borrower and its Subsidiaries as at the beginning of the twelve-month period ending with the month in which such determination is made, or (ii) is responsible for more than 10% of the consolidated net sales or of the consolidated net income of the Borrower and its Subsidiaries as reflected in the financial statements referred to in clause (i) above.

"Swing Line Lender" means Zions, in its capacity as the funding agent for Swing Line Loans made pursuant to Section 2.3, or such other Lender as may succeed to its rights and obligations as the Swing Line Lender pursuant to the terms of this Agreement.

"Swing Line Borrowing Notice" is defined in Section 2.3.2.

"Swing Line Loan" is defined in Section 2.3.1.

"Swing Line Sublimit" $10,000,000, as such amount may be permanently reduced from time to time as provided in Section 2.3.2.

"Taxes" means any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings, and any and all liabilities with respect to the foregoing, but excluding Excluded Taxes and Other Taxes.

"Term Loan" is defined in Section 2.2.

"Transferee" is defined in Section 12.4.

"Type" means, with respect to any Revolving Loan and the Term Loan and portions thereof, its nature as a Floating Rate Loan or a Eurodollar Loan, and with respect to any Swing Line Loan, its nature as a Floating Rate Loan.

"Unfunded Liabilities" means the amount (if any) by which the present value of all vested and unvested accrued benefits under all Single Employer Plans exceeds the fair market value of all such Plan assets allocable to such benefits, all determined as of the then most recent valuation date for such Plans using PBGC actuarial assumptions for single employer plan terminations.

"Unmatured Default" means an event which but for the lapse of time or the giving of notice, or both, would constitute a Default.

"Wholly-Owned Subsidiary" of a Person means (i) any Subsidiary all of the outstanding voting securities of which shall at the time be owned or controlled, directly or indirectly, by such Person or one or more Wholly-Owned Subsidiaries of such Person, or by such Person and one or more Wholly-Owned Subsidiaries of such Person, or (ii) any partnership, limited liability company, association, joint venture or similar business organization 100% of the ownership interests having ordinary voting power of which shall at the time be so owned or controlled.

"Year 3 Balloon Payment" is defined in Section 2.2(iii).

"Zions" means Zions First National Bank, a national banking association having its principal office in Salt Lake City, Utah, in its individual capacity, and its successors.

The foregoing definitions shall be equally applicable to both the singular and plural forms of the defined terms.

ARTICLE II

THE CREDITS

2.1. Revolving Credit Facility; Required Payments. From and including the Effective Date and prior to the Facility Termination Date, each of the Lenders severally agrees, on the terms and conditions set forth in this Agreement, to advance loans (each a "Revolving Loan"), pro rata in accordance with their respective Pro Rata Shares, in an amount not to exceed the lesser of:

(i) The Aggregate Available Revolving Credit Commitment less the LC Obligations outstanding on such date, and

(ii) The Collateral Value of the Borrowing Base less the LC Obligations outstanding on such date and Swing Line Loans outstanding on such date (other than Swing Line Loans which will be repaid with Revolving Loans to be funded on such date);

provided, however, that in no event shall any Lender be required to make any advance hereunder if upon the funding thereof such Lender's Outstanding Revolving Credit Exposure would exceed its Revolving Credit Commitment. Subject to the terms of this Agreement, the Borrower may borrow, repay and reborrow Revolving Loans at any time prior to the Facility Termination Date. The Revolving Credit Commitments of all Lenders shall expire on the Facility Termination Date and any and all Revolving Loans then outstanding and interest accrued and unpaid thereon shall be due and payable on the Facility Termination Date.

2.2. Term Loan Facility; Required Payments. On the Effective Date, each of the Lenders severally agrees, on the terms and conditions set forth in this Agreement, to advance a loan (the "Term Loan"), pro rata in accordance with their respective Pro Rata Shares, in an amount requested by the Company (not to exceed $69,000,000). Following the Effective Date, the Borrower shall have no further right to borrow under this Section 2.2, it being acknowledged and agreed that the Term Loan must be disbursed in a single disbursement on such date. The principal amount of the Term Loan shall be payable in installments in accordance with the following amortization schedule:

(i) On November 30, 2001, one installment of $15,000,000 (the "Initial Installment");

(ii) On the last day of each February, May, August and November, commencing February 28, 2002 to and including May 31, 2004, 10 consecutive equal installments each in the amount of $2,000,000 (the “Interim Equal Installments”);

(iii) On June 30, 2004, one installment in an amount equal to: (1) $36,000,000 minus (2) the aggregate dollar amount of payments made on account of principal outstanding under the Term Loan prior to such date (the “Year 3 Balloon Payment”); and

(iv) On March 31, 2005, such amount as is necessary to repay the Term Loan and interest accrued and unpaid thereon in full (the “Final Installment”).

Principal amounts paid on account of the Term Loan, whether regularly scheduled payments or prepayments permitted or required pursuant to Section 2.7 may not be reborrowed.

2.3. Swing Line Facility; Required Payments; Participation of Lenders.

2.3.1 Swing Line Credit Lending Limit. From and including the Effective Date and prior to the Facility Termination Date, the Swing Line Lender agrees, on the terms and conditions set forth in this Agreement, to make credit extensions to the Borrower in the form of overdrafts permitted under accounts of the Borrower maintained with the Swing Line Lender (each a "Swing Line Loan") in an aggregate amount not to exceed at any date outstanding the lesser of:

(i) The Aggregate Revolving Credit Commitment less the aggregate dollar amount of Revolving Loans outstanding and less the LC Obligations on such date;

(ii) The Collateral Value of the Borrowing Base less the aggregate dollar amount of Revolving Loans outstanding and less the LC Obligations on such date; and

(iii) The Swing Line Sublimit;

provided, however, that in no event shall the Swing Line Lender make any Swing Line Loan hereunder if upon the creation thereof the Swing Line Lender’s Outstanding Revolving Credit Exposure would exceed its Revolving Credit Commitment. Subject to the terms of this Agreement, the Borrower may borrow, repay and reborrow Swing Line Loans at any time prior to the Facility Termination Date.

2.3.2 Permanent Reductions of Swing Line Sublimit. The Borrower may on any date, in its sole and absolute discretion, elect to permanently reduce the Swing Line Sublimit to zero or in increments of $1,000,000 by delivering written notice (which may be by facsimile transmission) of such election to the Agent and the Swing Line Lender, such reduction to be effective on the third Business Day following the delivery of such notice. On the effective date of any reduction of the Swing Line Sublimit, the Borrower shall pay to the Swing Line Lender the full amount of Swing Line Loans outstanding in excess of the Swing Line Sublimit after giving effect to such reduction.

2.3.3 Interest on Swing Line Loans. Each Swing Line Loan shall bear interest at the Floating Rate.

2.3.4 Repayment of Swing Line Loans. Subject to the payment requirement set forth in Section 2.3.2 above upon any permanent reduction of the Swing Line Sublimit, Swing Line Loans outstanding shall be paid in full by the Borrower upon the earlier to occur of: (i) the Business Day immediately following the date demand therefor is made by the Swing Line Lender, in its sole and absolute discretion (which demand may be telephonic), and (ii) the Facility Termination Date.

2.3.5 Absolute Obligation to Refund. Each Lender's obligation to make Revolving Loans pursuant to Section 2.5.4 the proceeds of which will be utilized to repay Swing Line Loans shall be unconditional, continuing, irrevocable and absolute and shall not be affected by any circumstances, including, without limitation, (i) any set-off, counterclaim, recoupment, defense or other right which such Lender may have against the Agent, the Swing Line Lender or any other Person, (ii) the occurrence or continuance of a Default or Unmatured Default, (iii) any adverse change in the condition (financial or otherwise) of the Borrower, or (iv) any other circumstances, happening or event whatsoever; provided, however, that the obligation of the Lenders to advance Revolving Loans to repay Swing Line Loans made by the Swing Line Lender on any date on which the Swing Line Lender's personnel responsible for administering the credit facility hereunder had actual knowledge of the existence of a Default, shall be limited to those Swing Line Loans made on such date with the consent (which may be telephonic) of those Lenders with the authority to waive such Default. In the event that any Lender fails to make payment to the Agent of any amount required by it under this Section 2.3.5, the Agent shall be entitled to receive, retain and apply against such obligation the principal and interest otherwise payable to such Lender hereunder until the Agent receives such payment from such Lender or such obligation is otherwise fully satisfied. In addition to the foregoing, if for any reason any Lender fails to make payment to the Agent of any amount required by it under this Section 2.3.5, such Lender shall be deemed, at the option of the Agent, to have unconditionally and irrevocably purchased from the Swing Line Lender, without recourse or warranty, an undivided interest and participation in the applicable Swing Line Loan in the amount of such Lender's Pro Rata Share thereof, and such interest and participation may be recovered from such Lender together with interest thereon at the Federal Funds Effective Rate for each day during the period commencing on the date of demand and ending on the date such amount is received.

2.4 Types of Loans. Revolving Loans and portions of the Term Loan outstanding from time to time may be Floating Rate Loans or Eurodollar Loans, or a combination thereof, selected by the Borrower in accordance with Sections 2.8 and 2.9.

2.5 Facility Fee; Reductions in Aggregate Revolving Credit Commitment. The Borrower agrees to pay to the Agent for the account of each Lender a facility fee at a per annum rate equal to the Applicable Fee Rate on the daily average of such Lender's Commitment from the Effective Date to and including the Facility Termination Date, payable on last day of each fiscal quarter, commencing August 31, 2001, and on the Facility Termination Date. The Borrower may permanently reduce the Aggregate Revolving Credit Commitment in whole, or in part ratably among the Lenders in integral multiples of $5,000,000, upon at least five Business Days' written notice to the Agent, which notice shall specify the amount of any such reduction, provided, however, that the amount of the Aggregate Revolving Credit Commitment may not be reduced below the aggregate principal amount of the Aggregate Outstanding Revolving Credit Exposure. All accrued commitment fees shall be payable on the effective date of any termination of the obligations of the Lenders to make Credit Extensions hereunder.

2.6 Minimum Amount of Each Loan. Each Eurodollar Loan shall be in the minimum amount of $5,000,000 (and in multiples of $1,000,000 if in excess thereof), and each Floating Rate Loan (other than a Revolving Loan to repay Swing Line Loans) shall be in the minimum amount of $1,000,000 (and in multiples of $100,000 if in excess thereof), provided, however, that any Floating Rate Loan may be in the amount of the unused Aggregate Revolving Credit Commitment.

2.7 Optional and Mandatory Prepayments.

(i) The Borrower may from time to time pay, without penalty or premium, all outstanding Floating Rate Loans (other than Swing Line Loans), or, in a minimum aggregate amount of $1,000,000, any portion of the outstanding Floating Rate Loans upon two Business Days' prior notice to the Agent. The Borrower may at any time pay, without penalty or premium, all outstanding Swing Line Loans, or, in a minimum amount of $100,000 and increments of $50,000 in excess thereof, any portion of the outstanding Swing Line Loans, with notice to the Agent and the Swing Line Lender by 11:00 a.m. (Chicago time) on the date of repayment.

(ii) The Borrower may from time to time pay, subject to the payment of any funding indemnification amounts required by Section 3.4 but without penalty or premium, all outstanding Eurodollar Loans, or, in a minimum aggregate amount of $5,000,000 or any integral multiple of $1,000,000 in excess thereof, any portion of the outstanding Eurodollar Loans upon three Business Days' prior notice to the Agent.

(iii) The Borrower shall prepay outstanding Revolving Loans on any date upon which the Aggregate Outstanding Revolving Credit Exposure shall exceed the Collateral Value of the Borrowing Base by the full amount of such excess.

(iv) In addition to and not in lieu of regularly scheduled installments of principal on the Term Loan (other than as specifically provided in subsections (1), (2) and (3) below) required pursuant to Section 2.2, the Term Loan shall be subject to mandatory prepayment as follows:

(a) Upon the sale, transfer or other disposition of any Property of the Borrower or any of its Subsidiaries for total consideration in excess of $1,000,000 during any consecutive 12-month period, commencing July 1, 2001 (excluding sales of inventory of the Borrower and its Subsidiaries in the ordinary course of business), the Borrower shall remit to the Agent for disbursement to the Lenders in accordance with their Pro Rata Shares 100% of the Net Cash Proceeds thereof;

(b) Upon the issuance of debt or equity securities of the Borrower or any of its Subsidiaries (other than securities issued: (1) as payment in kind for cash amounts otherwise payable on account of outstanding debt or equity securities or (2) in non-cash transactions in connection with the exercise of outstanding options), the Borrower shall remit to the Agent for disbursement to the Lenders in accordance with their Pro Rata Shares 100%, in the case of debt securities, and 75%, in the case of equity securities, of the Net Cash Proceeds thereof;

(c) On or before January 31 of each calendar year (or, if the Borrower shall change its fiscal year following the Effective Date, on or before such date as may be mutually agreed by the Borrower and the Agent (but in no event later than the last day of the fifth month following the last day of each fiscal year)), the Borrower shall remit to the Agent for disbursement to the Lenders in accordance with their respective Pro Rata Shares: (1) Excess Cash Flow for the most recently ended fiscal year, multiplied by (2) the Applicable Percentage;

(d) No later than 10 days following the end of each calendar month, the Borrower shall remit to the Agent for disbursement to the Lenders in accordance with their Pro Rata Shares 100% of amounts paid or recovered on account of employee notes receivable held by the Issuer associated with executive compensation plans during the previous month; and

(e) No later than 30 days following the receipt thereof, the Borrower shall remit to the Agent for disbursement to the Lenders in accordance with their Pro Rata Shares 100% of Net Cash Proceeds received under any casualty or property damage insurance covering any Property of the Borrower and its Subsidiaries to the extent such proceeds are not used, as provided in the Collateral Documents, to reimburse the costs and expenses of the owner of the related Property or to replace or restore the property damaged or destroyed and 100% of all proceeds of any condemnation or other taking of Property of the Borrower and its Subsidiaries.

All prepayments remitted as mandatory prepayments on account of the Term Loan pursuant to this Section 2.7(iv) shall be applied as follows:

(1) First, to the Initial Installment until the Initial Installment shall have been paid in full;

(2) Then, against the Interim Equal Installments and the Year 3 Balloon Installment, pro rata in an amount equal to the amount of such prepayment divided by the number of Interim Equal Installments remaining plus the Year 3 Balloon Installment until the Interim Equal Installments and the Year 3 Balloon Installment shall have been paid in full; and

(3) Then, to the Final Installment.

2.8 Method of Selecting Types and Interest Periods for Loans. The Borrower shall select the Type of Loan and, in the case of each Eurodollar Loan, the Interest Period applicable thereto from time to time. With respect to the Term Loan and each Revolving Loan to be funded on the Effective Date and, thereafter, with respect to each Revolving Loan, the Borrower shall give the Agent irrevocable notice (a "Borrowing Notice") not later than 10:00 a.m. (Chicago time) at least one Business Day before the Borrowing Date of each Floating Rate Loan (other than a Swing Line Loan) and three Business Days before the Borrowing Date for each Eurodollar Loan, specifying:

(i) the Borrowing Date, which shall be a Business Day, of such Loan,

(ii) the aggregate amount of such Loan,

(iii) the Type selected, and

(iv) in the case of each Eurodollar Loan, the Interest Period applicable thereto.

Not later than noon (Chicago time) on each Borrowing Date, each Lender shall make available its Pro Rata Share of such Loan or Loans in funds immediately available in Chicago to the Agent at its address specified pursuant to Article XIII. The Agent will make the funds so received from the Lenders available to the Borrower at the Agent's aforesaid address.

2.9 Conversion and Continuation of Outstanding Loans. Floating Rate Loans (other than Swing Line Loans) shall continue as Floating Rate Loans unless and until such Floating Rate Loans are converted into Eurodollar Loans pursuant to this Section 2.9 or are paid or prepaid, as permitted or required hereunder. Each Eurodollar Loan shall continue as a Eurodollar Loan until the end of the then applicable Interest Period therefor, at which time such Eurodollar Loan shall be automatically converted into a Floating Rate Loan unless (x) such Eurodollar Loan is or was repaid in accordance with Section 2.7 or (y) the Borrower shall have given the Agent a Conversion/Continuation Notice (as defined below) requesting that, at the end of such Interest Period, such Eurodollar Loan continue as a Eurodollar Loan for the same or another Interest Period. Subject to the terms of Section 2.6, the Borrower may elect from time to time to convert all or any part of a Floating Rate Loan (other than a Swing Line Loan) into a Eurodollar Loan. The Borrower shall give the Agent irrevocable notice (a "Conversion/Continuation Notice") of each conversion of a Floating Rate Loan into a Eurodollar Loan or continuation of a Eurodollar Loan not later than 10:00 a.m. (Chicago time) at least three Business Days prior to the date of the requested conversion or continuation, specifying:

(i) the requested date, which shall be a Business Day, of such conversion or continuation,

(ii) the aggregate amount and Type of the Loan which is to be converted or continued, and

(iii) the amount of such Loan which is to be converted into or continued as a Eurodollar Loan and the duration of the Interest Period applicable thereto.

2.10 Changes in Interest Rate, Etc. Each Floating Rate Loan (other than a Swing Line Loan) shall bear interest on the outstanding principal amount thereof, for each day from and including the date such Loan is made or is automatically converted from a Eurodollar Loan into a Floating Rate Loan pursuant to Section 2.9, to but excluding the date it is paid or is converted into a Eurodollar Loan pursuant to Section 2.9 hereof, at a rate per annum equal to the Floating Rate for such day. Each Swing Line Loan shall bear interest on the outstanding principal amount thereof for each day from and including the day such Swing Line Loan is made to but excluding the date it is paid, at a rate per annum equal to the Floating Rate for such day. Changes in the rate of interest on that portion of any Loan maintained as a Floating Rate Loan will take effect simultaneously with each change in the Alternate Base Rate. Each Eurodollar Loan shall bear interest on the outstanding principal amount thereof from and including the first day of the Interest Period applicable thereto to (but not including) the last day of such Interest Period at the interest rate determined by the Agent as applicable to such Eurodollar Loan based upon the Borrower's selections under Sections 2.8 and 2.9 and otherwise in accordance with the terms hereof. No Interest Period may end after the Facility Termination Date. The Borrower shall select Interest Periods applicable to portions of the Term Loan being maintained as Eurodollar Loans so that it is not necessary to repay any portion of a Eurodollar Loan prior to the last day of the applicable Interest Period in order to make a regularly scheduled payment required pursuant to Section 2.2.

2.11 Rates Applicable After Default. Notwithstanding anything to the contrary contained in Section 2.8 or 2.9, during the continuance of a Default or Unmatured Default the Required Lenders may, at their option, by notice to the Borrower (which notice may be revoked at the option of the Required Lenders notwithstanding any provision of Section 8.2 requiring unanimous consent of the Lenders to changes in interest rates), declare that no Loan may be made as, converted into or continued as a Eurodollar Loan. During the continuance of a Default the Required Lenders may, at their option, by notice to the Borrower (which notice may be revoked at the option of the Required Lenders notwithstanding any provision of Section 8.2 requiring unanimous consent of the Lenders to changes in interest rates), declare that (i) each Eurodollar Loan shall bear interest for the remainder of the applicable Interest Period at the rate otherwise applicable to such Interest Period plus 2% per annum, (ii) each Floating Rate Loan shall bear interest at a rate per annum equal to the Floating Rate in effect from time to time plus 2% per annum, and (iii) the LC Fee shall be increased by 2% per annum, provided that, during the continuance of a Default under Section 7.6 or 7.7, the interest rates set forth in clauses (i) and (ii) above and the increase in the LC Fee set forth in clause (iii) above shall be applicable to all Credit Extensions without any election or action on the part of the Agent or any Lender.

2.12 Method of Payment. All payments of the Obligations hereunder shall be made, without setoff, deduction, or counterclaim, in immediately available funds to the Agent at the Agent's address specified pursuant to Article XIII, or at any other Lending Installation of the Agent specified in writing by the Agent to the Borrower, by noon (local time) on the date when due and shall (except in the case of Reimbursement Obligations for which the LC Issuer has not been fully indemnified by the Lenders or as otherwise specifically required hereunder and except with respect to repayments of Swing Line Loans) be applied ratably by the Agent among the Lenders. Each payment delivered to the Agent for the account of any Lender shall be delivered promptly by the Agent to such Lender in the same type of funds that the Agent received at its address specified pursuant to Article XIII or at any Lending Installation specified in a notice received by the Agent from such Lender. The Agent is hereby authorized to charge the account of the Borrower maintained with Bank One for each payment of principal, interest and fees as it becomes due hereunder.

2.13 Noteless Agreement; Evidence of Indebtedness. (i) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(ii) The Agent shall also maintain accounts in which it will record (a) the amount of each Loan made hereunder, the Type thereof and the Interest Period with respect thereto, (b) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder, (c) the original statement amount of each Facility LC and the amount of LC Obligations outstanding at any time, and (d) the amount of any sum received by the Agent hereunder from the Borrower and each Lender's share thereof.

(iii) The entries maintained in the accounts maintained pursuant to paragraphs (i) and (ii) above shall be prima facie evidence of the existence and amounts of the Obligations therein recorded; provided, however, that the failure of the Agent or any Lender to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Obligations in accordance with their terms.

(iv) Any Lender may request that its Pro Rata Share of Loans be evidenced by a promissory note in substantially the form of, in the case of Revolving Loans, Exhibit F-1 , in the case of the Term Loan, Exhibit F-2 , and, in the case of Swing Line Loans, Exhibit F-3 (each, a "Note"). In such event, the Borrower shall prepare, execute and deliver to such Lender such Note or Notes payable to the order of such Lender. Thereafter, the Lender's Pro Rata Share of Loans evidenced by such Note and interest thereon shall at all times (including after any assignment pursuant to Section 12.3) be represented by one or more Notes payable to the order of the payee named therein or any assignee pursuant to Section 12.3, except to the extent that any such Lender or assignee subsequently returns any such Note for cancellation and requests that such Loans once again be evidenced as described in paragraphs (i) and (ii) above.

2.14 Telephonic Notices. The Borrower hereby authorizes the Lenders and the Agent to extend, convert or continue Loans, effect selections of Types of Loans and to transfer funds based on telephonic notices made by any person or persons the Agent or any Lender in good faith believes to be acting on behalf of the Borrower, it being understood that the foregoing authorization is specifically intended to allow Borrowing Notices and Conversion/Continuation Notices to be given telephonically. The Borrower agrees to deliver promptly to the Agent a written confirmation, if such confirmation is requested by the Agent or any Lender, of each telephonic notice signed by an Authorized Officer. If the written confirmation differs in any material respect from the action taken by the Agent and the Lenders, the records of the Agent and the Lenders shall govern absent manifest error.

2.15 Interest Payment Dates; Interest and Fee Basis. Interest accrued on each Floating Rate Loan shall be payable in arrears on each Payment Date, commencing with the first such date to occur after the Effective Date hereof, on any date on which the Floating Rate Loan is prepaid, whether due to acceleration or otherwise, and at maturity. Interest accrued on that portion of the outstanding principal amount of any Floating Rate Loan converted into a Eurodollar Loan on a day other than a Payment Date shall be payable on the date of conversion. Interest accrued on each Eurodollar Loan shall be payable on the last day of its applicable Interest Period, on any date on which the Eurodollar Loan is prepaid, whether by acceleration or otherwise, and at maturity. Interest accrued on each Eurodollar Loan having an Interest Period longer than three months shall also be payable on the last day of each three-month interval during such Interest Period. Interest on Eurodollar Loans, commitment fees and LC Fees shall be calculated for actual days elapsed on the basis of a 360-day year. Interest on Floating Rate Loans shall be calculated for actual days elapsed on the basis of a 365, or when appropriate 366, day year. Interest shall be payable for the day a Loan is made but not for the day of any payment on the amount paid if payment is received prior to noon (local time) at the place of payment. If any payment of principal of or interest on a Loan shall become due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and, in the case of a principal payment, such extension of time shall be included in computing interest in connection with such payment.

2.16 Notification of Loans, Interest Rates, Prepayments and Commitment Reductions. Promptly after receipt thereof, the Agent will notify each Lender of the contents of each Aggregate Revolving Credit Commitment reduction notice, Borrowing Notice, Swing Line Borrowing Notice, Conversion/Continuation Notice, and repayment notice received by it hereunder. Promptly after notice from the LC Issuer, the Agent will notify each Lender of the contents of each request for issuance of a Facility LC hereunder. The Agent will notify each Lender of the interest rate applicable to each Eurodollar Loan promptly upon determination of such interest rate and will give each Lender prompt notice of each change in the Alternate Base Rate.

2.17 Lending Installations. Each Lender may book its Pro Rata Share of Loans and the LC Issuer may book the Facility LCs at any Lending Installation selected by such Lender or the LC Issuer, as the case may be, and may change its Lending Installation from time to time. All terms of this Agreement shall apply to any such Lending Installation and the Loans, Facility LCs, participations in the LC Obligations and any Notes issued hereunder shall be deemed held by each Lender or the LC Issuer , as the case may be, for the benefit of any such Lending Installation. Each Lender and the LC Issuer may, by written notice to the Agent and the Borrower in accordance with Article XIII, designate replacement or additional Lending Installations through which Loans will be made by it or Facility LCs will be issued by it and for whose account Loan payments or payments with respect to Facility LCs are to be made.

2.18 Non-Receipt of Funds by the Agent. Unless the Borrower or a Lender, as the case may be, notifies the Agent prior to the date on which it is scheduled to make payment to the Agent of (i) in the case of a Lender, the proceeds of a Loan or (ii) in the case of the Borrower, a payment of principal, interest or fees to the Agent for the account of the Lenders, that it does not intend to make such payment, the Agent may assume that such payment has been made. The Agent may, but shall not be obligated to, make the amount of such payment available to the intended recipient in reliance upon such assumption. If such Lender or the Borrower, as the case may be, has not in fact made such payment to the Agent, the recipient of such payment shall, on demand by the Agent, repay to the Agent the amount so made available together with interest thereon in respect of each day during the period commencing on the date such amount was so made available by the Agent until the date the Agent recovers such amount at a rate per annum equal to (x) in the case of payment by a Lender, the Federal Funds Effective Rate for such day for the first three days and, thereafter, the interest rate applicable to the relevant Loan or (y) in the case of payment by the Borrower, the interest rate applicable to the relevant Loan.

2.19 Facility LCs.

2.19.1 Issuance. The LC Issuer hereby agrees, on the terms and conditions set forth in this Agreement, to issue standby and commercial letters of credit (each, a "Facility LC") and to renew, extend, increase, decrease or otherwise modify each Facility LC ("Modify," and each such action a "Modification"), from time to time from and including the date of this Agreement and prior to the Facility Termination Date upon the request of the Borrower; provided that immediately after each such Facility LC is issued or Modified, (i) the aggregate amount of the outstanding LC Obligations shall not exceed the lesser of: (a) $5,000,000, and (b) the Collateral Value of the Borrowing Base minus the amount of all Revolving Loans and Swing Line Loans outstanding, and (ii) the Aggregate Outstanding Revolving Credit Exposure shall not exceed the Aggregate Revolving Credit Commitment. No Facility LC shall have an expiry date later than the earlier of (x) the fifth Business Day prior to the Facility Termination Date and (y) one year after its issuance. Under the Existing Credit Agreement, Zions, as the "LC Issuer" (as defined therein) issued the Existing Letters of Credit. Effective as of the Effective Date, the Existing Letters of Credit shall be deemed "Facility LCs for all purposes of this Agreement and the other Loan Documents. All issuance fees paid to the "Lenders" under (and as defined in) the Existing Credit Agreement with respect to the Existing Letters of Credit shall be pro rated as of the Effective Date and the Lenders hereunder allocated their respective Pro Rata Shares thereof by those of the Lenders which were "Lenders" under the Existing Credit Agreement..

2.19.2 Participations. Effective upon the Effective Date with respect to the Existing Letters of Credit and following the Effective Date upon the issuance or Modification by the LC Issuer of a Facility LC in accordance with this Section 2.19, the LC Issuer shall be deemed, without further action by any party hereto, to have unconditionally and irrevocably sold to each Lender, and each Lender shall be deemed, without further action by any party hereto, to have unconditionally and irrevocably purchased from the LC Issuer, a participation in such Facility LC (and each Modification thereof) and the related LC Obligations in proportion to its Pro Rata Share.

2.19.3 Notice. Subject to Section 2.19.1, the Borrower shall give the LC Issuer notice prior to 10:00 a.m. (Chicago time) at least five Business Days prior to the proposed date of issuance or Modification of each Facility LC, specifying the beneficiary, the proposed date of issuance (or Modification) and the expiry date of such Facility LC, and describing the proposed terms of such Facility LC and the nature of the transactions proposed to be supported thereby. Upon receipt of such notice, the LC Issuer shall promptly notify the Agent, and the Agent shall promptly notify each Lender, of the contents thereof and of the amount of such Lender's participation in such proposed Facility LC. The issuance or Modification by the LC Issuer of any Facility LC shall, in addition to the conditions precedent set forth in Article IV (the satisfaction of which the LC Issuer shall have no duty to ascertain), be subject to the conditions precedent that such Facility LC shall be

satisfactory to the LC Issuer and that the Borrower shall have executed and delivered such application agreement and/or such other instruments and agreements relating to such Facility LC as the LC Issuer shall have reasonably requested (each, a "Facility LC Application"). In the event of any conflict between the terms of this Agreement and the terms of any Facility LC Application, the terms of this Agreement shall control.

2.19.4 LC Fees. The Borrower shall pay to the Agent, for the account of the Lenders ratably in accordance with their respective Pro Rata Shares, (i) with respect to each standby Facility LC, a letter of credit fee computed at a per annum rate equal to the Applicable Margin for Eurodollar Loans in effect from time to time on the average daily undrawn stated amount under such standby Facility LC, such fee to be payable in arrears on the last Business Day of each fiscal quarter and on the Facility Termination Date, and (ii) with respect to each commercial Facility LC, a one-time letter of credit fee in an amount equal to such percentage of the initial stated amount (or, with respect to a Modification of any such commercial Facility LC which increases the stated amount thereof, such increase in the stated amount) as the LC Issuer may require consistent with its customary practices for similar letters of credit, such fee to be payable on the date of such issuance or increase (each such fee described in this sentence an "LC Fee"). The Borrower shall also pay to the LC Issuer for its own account (x) at the time of issuance of each Facility LC, a fronting fee equal to 0.15% of the stated amount of such Facility LC, and (y) documentary and processing charges in connection with the issuance or Modification of and draws under Facility LCs in accordance with the LC Issuer's standard schedule for such charges as in effect from time to time.

2.19.5 Administration; Reimbursement by Lenders. Upon receipt from the beneficiary of any Facility LC of any demand for payment under such Facility LC, the LC Issuer shall notify the Agent and the Agent shall promptly notify the Borrower and each other Lender as to the amount to be paid by the LC Issuer as a result of such demand and the proposed payment date (the "LC Payment Date"). The responsibility of the LC Issuer to the Borrower and each Lender shall be only to determine that the documents (including each demand for payment) delivered under each Facility LC in connection with such presentment shall be in conformity in all material respects with such Facility LC. The LC Issuer shall endeavor to exercise the same care in the issuance and administration of the Facility LCs as it does with respect to letters of credit in which no participations are granted, it being understood that in the absence of any gross negligence or willful misconduct by the LC Issuer, each Lender shall be unconditionally and irrevocably liable without regard to the occurrence of any Default or any condition precedent whatsoever, to reimburse the LC Issuer on demand for (i) such Lender's Pro Rata Share of the amount of each payment made by the LC Issuer under each Facility LC to the extent such amount is not reimbursed by the Borrower pursuant to Section 2.19.6 below, plus (ii) interest on the foregoing amount to be reimbursed by such Lender, for each day from the date of the LC Issuer's demand for such reimbursement (or, if such demand is made after 11:00 a.m. (Chicago time) on such date, from the next succeeding Business Day) to the date on which such Lender pays the amount to be reimbursed by it, at a rate of interest per annum equal to the Federal Funds Effective Rate for the first three days and, thereafter, at a rate of interest equal to the rate applicable to Floating Rate Loans.

2.19.6 Reimbursement by Borrower. The Borrower shall be irrevocably and unconditionally obligated to reimburse the LC Issuer on or before the applicable LC Payment Date for any amounts to be paid by the LC Issuer upon any drawing under any Facility LC, without presentment, demand, protest or other formalities of any kind; provided that neither the Borrower nor any Lender shall hereby be precluded from asserting any claim for direct (but not consequential) damages suffered by the Borrower or such Lender to the extent, but only to the extent, caused by (i) the willful misconduct or gross negligence of the LC Issuer in determining whether a request presented under any Facility LC issued by it complied with the terms of such Facility LC or (ii) the LC Issuer's failure to pay under any Facility LC issued by it after the presentation to it of a request strictly complying with the terms and conditions of such Facility LC. All such amounts paid by the LC Issuer and remaining unpaid by the Borrower shall bear interest, payable on demand, for each day until paid at a rate per annum equal to (x) the rate applicable to Floating Rate Loans for such day if such day falls on or before the applicable LC Payment Date and (y) the sum of 2% plus the rate applicable to Floating Rate Loans for such day if such day falls after such LC Payment Date. The LC Issuer will pay to each Lender ratably in accordance with its Pro Rata Share all amounts received by it from the Borrower for application in payment, in whole or in part, of the Reimbursement Obligation in respect of any Facility LC issued by the LC Issuer, but only to the extent such Lender has made payment to the LC Issuer in respect of such Facility LC pursuant to Section 2.19.5. Subject to the terms and conditions of this Agreement (including without limitation the submission of a Borrowing Notice in compliance with Section 2.8 and the satisfaction of the applicable conditions precedent set forth in Article IV), the Borrower may request a Revolving Loan hereunder for the purpose of satisfying any Reimbursement Obligation.

2.19.7 Obligations Absolute. The Borrower's obligations under this Section 2.19 shall be absolute and unconditional under any and all circumstances and irrespective of any setoff, counterclaim or defense to payment which the Borrower may have or have had against the LC Issuer, any Lender or any beneficiary of a Facility LC. The Borrower further agrees with the LC Issuer and the Lenders that the LC Issuer and the Lenders shall not be responsible for, and the Borrower's Reimbursement Obligation in respect of any Facility LC shall not be affected by, among other things, the validity or genuineness of documents or of any endorsements thereon, even if such documents should in fact prove to be in any or all respects invalid, fraudulent or forged, or any dispute between or among the Borrower, any of its Affiliates, the beneficiary of any Facility LC or any financing institution or other party to whom any Facility LC may be transferred or any claims or defenses whatsoever of the Borrower or of any of its Affiliates against the beneficiary of any Facility LC or any such transferee. The LC Issuer shall not be liable for any error, omission, interruption or delay in transmission, dispatch or delivery of any message or advice, however transmitted, in connection with any Facility LC. The Borrower agrees that any action taken or omitted by the LC Issuer or any Lender under or in connection with each Facility LC and the related drafts and documents, if done without gross negligence or willful misconduct, shall be binding upon the Borrower and shall not put the LC Issuer or any Lender under any liability to the Borrower. Nothing in this Section 2.19.7 is intended to limit the right of the Borrower to make a claim against the LC Issuer for damages as contemplated by the proviso to the first sentence of Section 2.19.6.

2.19.8 Actions of LC Issuer. The LC Issuer shall be entitled to rely, and shall be fully protected in relying, upon any Facility LC, draft, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopy, telex or teletype message, statement, order or other document believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and upon advice and statements of legal counsel, independent accountants and other experts selected by the LC Issuer. The LC Issuer shall be fully justified in failing or refusing to take any action under this Agreement unless it shall first have received such advice or concurrence of the Required Lenders as it reasonably deems appropriate or it shall first be indemnified to its reasonable satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. Notwithstanding any other provision of this Section 2.19, the LC Issuer shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement in accordance with a request of the Required Lenders, and such request and any action taken or failure to act pursuant thereto shall be binding upon the Lenders and any future holders of a participation in any Facility LC.

2.19.9 Indemnification. The Borrower hereby agrees to indemnify and hold harmless each Lender, the LC Issuer and the Agent, and their respective directors, officers, agents and employees from and against any and all claims and damages, losses, liabilities, costs or expenses which such Lender, the LC Issuer or the Agent may incur (or which may be claimed against such Lender, the LC Issuer or the Agent by any Person whatsoever) by reason of or in connection with the issuance, execution and delivery or transfer of or payment or failure to pay under any Facility LC or any actual or proposed use of any Facility LC, including, without limitation, any claims, damages, losses, liabilities, costs or expenses which the LC Issuer may incur by reason of or in connection with (i) the failure of any other Lender to fulfill or comply with its obligations to the LC Issuer hereunder (but nothing herein contained shall affect any rights the Borrower may have against any defaulting Lender) or (ii) by reason of or on account of the LC Issuer issuing any Facility LC which specifies that the term "Beneficiary" included therein includes any successor by operation of law of the named Beneficiary, but which Facility LC does not require that any drawing by any such successor Beneficiary be accompanied by a copy of a legal document, satisfactory to the LC Issuer, evidencing the appointment of such successor Beneficiary; provided that the Borrower shall not be required to indemnify any Lender, the LC Issuer or the Agent for any claims, damages, losses, liabilities, costs or expenses to the extent, but only to the extent, caused by (x) the willful misconduct or gross negligence of the LC Issuer in determining whether a request presented under any Facility LC complied with the terms of such Facility LC or (y) the LC Issuer's failure to pay under any Facility LC after the presentation to it of a request strictly complying with the terms and conditions of such Facility LC. Nothing in this Section 2.19.9 is intended to limit the obligations of the Borrower under any other provision of this Agreement.

2.19.10 Lenders' Indemnification. Each Lender shall, ratably in accordance with its Pro Rata Share, indemnify the LC Issuer, its affiliates and their respective directors, officers, agents and employees (to the extent not reimbursed by the Borrower) against any cost, expense (including reasonable counsel fees and disbursements), claim, demand, action, loss or liability (except such as result from such indemnitees' gross negligence or willful misconduct or the LC Issuer's failure to pay under any Facility LC after the presentation to it of a request strictly complying with the terms and conditions of the Facility LC) that such indemnitees may suffer or incur in connection with this Section 2.19 or any action taken or omitted by such indemnitees hereunder.

2.19.11 Facility LC Collateral Account. The Borrower agrees that it will, upon the request of the Required Lenders and until the final expiration date of any Facility LC and thereafter as long as any amount is payable to the LC Issuer or the Lenders in respect of any Facility LC, maintain a special collateral account pursuant to arrangements satisfactory to the Agent (the "Facility LC Collateral Account") at the Agent's office at the address specified pursuant to Article XIII, in the name of such Borrower but under the sole dominion and control of the Agent, for the benefit of the Lenders and in which such Borrower shall have no interest other than as set forth in Section 8.1. The Borrower hereby pledges, assigns and grants to the Agent, on behalf of and for the ratable benefit of the Lenders and the LC Issuer, a security interest in all of the Borrower's right, title and interest in and to all funds which may from time to time be on deposit in the Facility LC Collateral Account to secure the prompt and complete payment and performance of the Obligations. The Agent will invest any funds on deposit from time to time in the Facility LC Collateral Account in certificates of deposit of Bank One having a maturity not exceeding 30 days. Nothing in this Section 2.19.11 shall either obligate the Agent to require the Borrower to deposit any funds in the Facility LC Collateral Account or limit the right of the Agent to release any funds held in the Facility LC Collateral Account in each case other than as required by Section 8.1.

2.19.12 Rights as a Lender. In its capacity as a Lender, the LC Issuer shall have the same rights and obligations as any other Lender.

2.20 Collateral and Other Credit Support. As collateral and other credit support for the payment and performance of the Obligations:

(i) On or before the Effective Date the Borrower shall execute and deliver and shall cause to be executed and delivered to the Agent for the benefit of the Credit Providers:

(a) The Borrower Security Agreement;

(b) The Borrower-Owned Pledged Shares accompanied by blank stock transfer powers or such other documents, instruments and agreements as are deemed necessary or desirable by the Agent to effect transfer of the ownership of the Borrower-Owned Pledged Shares following the occurrence of an Default and acceleration of the Obligations;

(c) The Real Property Collateral for all Real Property in which the Borrower has an interest;

(d) Supplemental security agreements covering all federally registered Intellectual Property Collateral in which the Borrower has an interest in form acceptable for filing in the Patent and Trademark Office and the U.S. Copyright Office, accompanied by irrevocable power of attorney in favor of the Agent in form and substance acceptable to the Agent;

(e) Such UCC-1 financing statements as the Agent may reasonably require; and

(f) Such other documents, instruments and agreements as the Agent may reasonably require.

(ii) On or before the Effective Date the Borrower shall cause to be executed and delivered to the Agent for the benefit of the Credit Providers from each of the Initial Guarantors:

(a) A Guarantor Security Agreement;

(b) The Guarantor-Owned Pledged Shares of such Initial Guarantor accompanied by blank stock transfer powers or such other documents, instruments and agreements as are deemed necessary or desirable by the Agent to effect transfer of the ownership of such Guarantor-Owned Pledged Shares following the occurrence of an Default and acceleration of the Obligations;

(c) The Real Property Collateral for all Real Property in which such Initial Guarantor has an interest;

(d) Supplemental security agreements covering all federally registered Intellectual Property Collateral in which such Initial Guarantor has an interest in form acceptable for filing in the U.S. Patent and Trademark Office and the U.S. Copyright Office, accompanied by irrevocable power of attorney in favor of the Agent in form and substance acceptable to the Agent;

(e) Such UCC-1 financing statements as the Agent may require; and

(f) Such other documents, instruments and agreements as the Agent may reasonably require.

(iii) Upon the earlier to occur of: (a) December 1, 2001 and (b) the date upon which the Existing Premier Agendas Facility shall have terminated, from Premier Agendas each of the documents, instruments and agreements delivered by the Initial Guarantors pursuant to subsection (ii) above, which shall include, without limitation, consents to removal of property from each of the printers at whose locations Premier Agendas inventory is from time to time located.

(iv) From time to time following the Effective Date the Borrower shall cause to be executed and delivered to the Agent for the benefit of the Credit Providers from each Material Subsidiary formed or acquired following the Effective Date or which existed on the Effective Date and which the Agent has determined constitutes a Material Subsidiary notwithstanding that such Subsidiary as not included in the Initial Guarantors (other than Premier Agendas, as to which the requirements of subsection (iii) above shall supersede this subsection (iv)), the documents, instruments and agreements provided by each of the Initial Guarantors as a condition precedent to the Effective Date, including, without limitation, corporate authorizations and opinions of counsel.

(v) From time to time following the Effective Date the Borrower shall execute and deliver and shall cause to be executed and delivered to the Agent for the benefit of the Credit Providers such additional documents, instruments and agreements as are in the Agent's judgment necessary or desirable to obtain and maintain for the Agent for the benefit of the Credit Providers the benefit of the Collateral and the Loan Documents.

ARTICLE III

YIELD PROTECTION; TAXES

2.19.10 Yield Protection. If, on or after the date of this Agreement, the adoption of any law or any governmental or quasi-governmental rule, regulation, policy, guideline or directive (whether or not having the force of law), or any change in the interpretation or administration thereof by any governmental or quasi-governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender or applicable Lending Installation or the LC Issuer with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency:

(i) subjects any Lender or any applicable Lending Installation or the LC Issuer to any Taxes, or changes the basis of taxation of payments (other than with respect to Excluded Taxes) to any Lender or the LC Issuer in respect of its Eurodollar Loans, Facility LCs or participations therein, or

(ii) imposes or increases or deems applicable any reserve, assessment, insurance charge, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender or any applicable Lending Installation or the LC Issuer (other than reserves and assessments taken into account in determining the interest rate applicable to Eurodollar Loans), or

(iii) imposes any other condition the result of which is to increase the cost to any Lender or the LC Issuer or any applicable Lending Installation of making, funding or maintaining its Eurodollar Loans or of issuing or participating in Facility LCs, or reduces any amount receivable by any Lender or any applicable Lending Installation or the LC Issuer in connection with its Eurodollar Loans, Facility LCs or participations therein, or requires any Lender or any applicable Lending Installation or the LC Issuer to make any payment calculated by reference to the amount of Eurodollar Loans, Facility LCs or participations therein held or interest or LC Fees received by it, by an amount deemed material by such Lender or the LC Issuer, as the case may be,

and the result of any of the foregoing is to increase the cost to such Lender or applicable Lending Installation or the LC Issuer of making or maintaining its Eurodollar Loans or Revolving Credit Commitment or of issuing or participating in Facility LCs or to reduce the return received by such Lender or applicable Lending Installation or the LC Issuer, as the case may be, in connection with such Eurodollar Loans, Revolving Credit Commitment, Facility LCs or participations therein, then, within 15 days of demand by such Lender or the LC Issuer, as the case may be, the Borrower shall pay such Lender or the LC Issuer, as the case may be, such additional amount or amounts as will compensate such Lender or the LC Issuer, as the case may be, for such increased cost or reduction in amount received.

3.2 Changes in Capital Adequacy Regulations. If a Lender or the LC Issuer determines the amount of capital required or expected to be maintained by such Lender or the LC Issuer, any Lending Installation of such Lender or the LC Issuer or any corporation controlling such Lender or the LC Issuer is increased as a result of a Change, then, within 15 days of demand by such Lender, the Borrower shall pay such Lender or the LC Issuer the amount necessary to compensate for any shortfall in the rate of return on the portion of such increased capital which such Lender or the LC Issuer reasonably determines is attributable to this Agreement, its Loans, its Outstanding Revolving Credit Exposure, its Pro Rata Share of the Term Loan outstanding, its Revolving Credit Commitment to make Loans or to issue or participate in Facility LCs, as the case may be, hereunder (after taking into account such Lender's or the LC Issuer's policies as to capital adequacy). "Change" means (i) any change after the date of this Agreement in the Risk-Based Capital Guidelines, or (ii) any adoption of or change in any other law, governmental or quasi-governmental rule, regulation, policy, guideline, interpretation, or directive (whether or not having the force of law) after the date of this Agreement which affects the amount of capital required or expected to be maintained by any Lender or the LC Issuer or any Lending Installation or any corporation controlling any Lender or the LC Issuer. "Risk-Based Capital Guidelines" means (i) the risk-based capital guidelines in effect in the United States on the date of this Agreement, including transition rules, and (ii) the corresponding capital regulations promulgated by regulatory authorities outside the United States implementing the July 1988 report of the Basle Committee on Banking Regulation and Supervisory Practices Entitled "International Convergence of Capital Measurements and Capital Standards," including transition rules, and any amendments to such regulations adopted prior to the date of this Agreement.

3.3 Availability of Types of Loans. If any Lender determines that maintenance of its Eurodollar Loans at a suitable Lending Installation would violate any applicable law, rule, regulation, or directive, whether or not having the force of law, or if the Required Lenders determine that (i) deposits of a type and maturity appropriate to match fund Eurodollar Loans are not available or (ii) the interest rate applicable to Eurodollar Loans does not accurately reflect the cost of making or maintaining Eurodollar Loans, then the Agent shall suspend the availability of Eurodollar Loans and require any affected Eurodollar Loans to be repaid or converted to Floating Rate Loans, subject to the payment of any funding indemnification amounts required by Section 3.4.

3.4 Funding Indemnification. If any payment of a Eurodollar Loan occurs on a date which is not the last day of the applicable Interest Period, whether because of acceleration, prepayment or otherwise, or a Eurodollar Loan is not made on the date specified by the Borrower for any reason other than default by the Lenders, the Borrower will indemnify each Lender for any loss or cost incurred by it resulting therefrom, including, without limitation, any loss or cost in liquidating or employing deposits acquired to fund or maintain such Eurodollar Loan.

3.5 Taxes. (i) All payments by the Borrower to or for the account of any Lender, the LC Issuer or the Agent hereunder or under any Note or Facility LC Application shall be made free and clear of and without deduction for any and all Taxes. If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to any Lender, the LC Issuer or the Agent, (a) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 3.5) such Lender, the LC Issuer or the Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (b) the Borrower shall make such deductions, (c) the Borrower shall pay the full amount deducted to the relevant authority in accordance with applicable law and (d) the Borrower shall furnish to the Agent the original copy of a receipt evidencing payment thereof within 30 days after such payment is made.

(ii) In addition, the Borrower hereby agrees to pay any present or future stamp or documentary taxes and any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or under any Note or Facility LC Application or from the execution or delivery of, or otherwise with respect to, this Agreement or any Note or Facility LC Application ("Other Taxes").

(iii) The Borrower hereby agrees to indemnify the Agent, the LC Issuer and each Lender for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed on amounts payable under this Section 3.5) paid by the Agent, the LC Issuer or such Lender and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. Payments due under this indemnification shall be made within 30 days of the date the Agent, the LC Issuer or such Lender makes demand therefor pursuant to Section 3.6.

(iv) Each Lender that is not incorporated under the laws of the United States of America or a state thereof (each a "Non-U.S. Lender") agrees that it will, not more than ten Business Days after the date of this Agreement, (i) deliver to each of the Borrower and the Agent two duly completed copies of United States Internal Revenue Service Form W-8BEN or W-8ECI, certifying in either case that such Lender is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes, and (ii) deliver to each of the Borrower and the Agent a United States Internal Revenue Form W-8 or W-9, as the case may be, and certify that it is entitled to an exemption from United States backup withholding tax. Each Non-U.S. Lender further undertakes to deliver to each of the Borrower and the Agent (x) renewals or additional copies of such form (or any successor form) on or before the date that such form expires or becomes obsolete, and (y) after the occurrence of any event requiring a change in the most recent forms so delivered by it, such additional forms or amendments thereto as may be reasonably requested by the Borrower or the Agent. All forms or amendments described in the preceding sentence shall certify that such Lender is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes, unless an event (including without limitation any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Lender from duly completing and delivering any such form or amendment with respect to it and such Lender advises the Borrower and the Agent that it is not capable of receiving payments without any deduction or withholding of United States federal income tax.

(v) For any period during which a Non-U.S. Lender has failed to provide the Borrower with an appropriate form pursuant to clause (iv), above (unless such failure is due to a change in treaty, law or regulation, or any change in the interpretation or administration thereof by any governmental authority, occurring subsequent to the date on which a form originally was required to be provided), such Non-U.S. Lender shall not be entitled to indemnification under this Section 3.5 with respect to Taxes imposed by the United States; provided that, should a Non-U.S. Lender which is otherwise exempt from or subject to a reduced rate of withholding tax become subject to Taxes because of its failure to deliver a form required under clause (iv), above, the Borrower shall take such steps as such Non-U.S. Lender shall reasonably request to assist such Non-U.S. Lender to recover such Taxes.

(vi) Any Lender that is entitled to an exemption from or reduction of withholding tax with respect to payments under this Agreement or any Note pursuant to the law of any relevant jurisdiction or any treaty shall deliver to the Borrower (with a copy to the Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law as will permit such payments to be made without withholding or at a reduced rate.

(vii) If the U.S. Internal Revenue Service or any other governmental authority of the United States or any other country or any political subdivision thereof asserts a claim that the Agent did not properly withhold tax from amounts paid to or for the account of any Lender (because the appropriate form was not delivered or properly completed, because such Lender failed to notify the Agent of a change in circumstances which rendered its exemption from withholding ineffective, or for any other reason), such Lender shall indemnify the Agent fully for all amounts paid, directly or indirectly, by the Agent as tax, withholding therefor, or otherwise, including penalties and interest, and including taxes imposed by any jurisdiction on amounts payable to the Agent under this subsection, together with all costs and expenses related thereto (including attorneys fees and time charges of attorneys for the Agent, which attorneys may be employees of the Agent). The obligations of the Lenders under this Section 3.5(vii) shall survive the payment of the Obligations and termination of this Agreement.

3.6 Lender Statements; Survival of Indemnity. To the extent reasonably possible, each Lender shall designate an alternate Lending Installation with respect to its Eurodollar Loans to reduce any liability of the Borrower to such Lender under Sections 3.1, 3.2 and 3.5 or to avoid the unavailability of Eurodollar Loans under Section 3.3, so long as such designation is not, in the judgment of such Lender, disadvantageous to such Lender. Each Lender shall deliver a written statement of such Lender to the Borrower (with a copy to the Agent) as to the amount due, if any, under Section 3.1, 3.2, 3.4 or 3.5. Such written statement shall set forth in reasonable detail the calculations upon which such Lender determined such amount and shall be final, conclusive and binding on the Borrower in the absence of manifest error. Determination of amounts payable under such Sections in connection with a Eurodollar Loan shall be calculated as though each Lender funded its Eurodollar Loan through the purchase of a deposit of the type and maturity corresponding to the deposit used as a reference in determining the Eurodollar Rate applicable to such Loan, whether in fact that is the case or not. Unless otherwise provided herein, the amount specified in the written statement of any Lender shall be payable on demand after receipt by the Borrower of such written statement. The obligations of the Borrower under Sections 3.1, 3.2, 3.4 and 3.5 shall survive payment of the Obligations and termination of this Agreement.

ARTICLE IV

CONDITIONS PRECEDENT

4.1 Initial Credit Extension. The Lenders shall not be required to make the initial Credit Extension hereunder unless the Borrower has furnished to the Agent with sufficient copies for the Lenders, duly certified, executed by the parties thereto, acknowledged and in recordable form, as applicable:

(i) Copies of the Articles or certificate of incorporation of the Borrower and each of the Initial Guarantors, together with all amendments, and a certificate of good standing, each certified by the appropriate governmental officer in its jurisdiction of incorporation.

(ii) For the Borrower and each of the Initial Guarantors, copies, certified by the Secretary or Assistant Secretary of such Person, of its by-laws and of its Board of Directors' resolutions and of resolutions or actions of any

other body authorizing the execution of the Loan Documents to which such Person is a party.

(iii) For the Borrower and each of the Initial Guarantors, an incumbency certificate, executed by the Secretary or Assistant Secretary of such Person, which shall identify by name and title and bear the signatures of the officers of the such Person authorized to sign the Loan Documents to which such Person is a party, upon which certificate the Agent and the Lenders shall be entitled to rely until informed of any change in writing by the Borrower.

(iv) A certificate, signed by the chief financial officer of the Borrower, stating that on the initial Credit Extension Date no Default or Unmatured Default has occurred and is continuing.

(v) A written opinion of Parr Waddoups Brown Gee & Loveless, PC, counsel to the Borrower and the Initial Guarantors, addressed to the Agent and the Lenders in substantially the form of **Exhibit G**.

(vi) Any Notes requested by a Lender pursuant to Section 2.13 payable to the order of each such requesting Lender.

(vii) Written money transfer instructions, in substantially the form of **Exhibit H**, addressed to the Agent and signed by an Authorized Officer, together with such other related money transfer authorizations as the Agent may have reasonably requested.

(viii) From the Borrower, the documents, instruments and agreements required pursuant to Section 2.20(i).

(ix) From each of the Initial Guarantors, the documents, instruments and agreements required pursuant to Section 2.20(ii).

(x) From EDS Information Services, LLC, such consents to assignment, attornment and other agreements as the Agent shall require.

(xi) The insurance certificate described in Section 5.20 accompanied by certificates of the issuers of the insurance described therein evidencing that the Agent for the benefit of the Credit Providers is named as a loss payee and additional insured, as applicable, thereunder.

(xii) Acknowledgment copies of all UCC-1 financing statements required by the Agent to be filed hereunder prior to the initial Credit Extension, each accompanied by a UCC search showing such financing statement as duly filed and evidencing the first priority of the security interest of the Agent for the benefit of the Credit Providers perfected thereby.

(xiii) An appraisal of the Real Property in form and detail satisfactory to the Agent prepared on the basis of methodology and by the Agent or an independent MAI appraiser acceptable to the Agent and which appraisal has been reviewed and approved by the Agent.

(xiv) Evidence reasonably satisfactory to the Agent that a title insurance company acceptable to the Agent is irrevocably and unconditionally committed to issue a title insurance policy or policies acceptable to the Agent covering the Real Property on the American Land Title Association Loan Policy (with extended coverage), Form 1970, Amended 10-17-70 showing fee title vested in the Borrower or a Guarantor, with reinsurance as required by the Agent under an ALTA Facultative Reinsurance Agreement with Direct Access, modified as required by the Agent, with an aggregate liability limit acceptable to the Agent, insuring that each deed of trust or other security document encumbering the Real Property constitutes a valid, fully perfected Lien on the fee or leasehold and appurtenant easement interests in the Real Property, subject only to Permitted Collateral Exceptions, and which contains: (a) full coverage against claims of mechanics' lienors, (b) no exceptions or conditions other than exceptions and conditions approved in writing by the Agent, and (c) endorsements and such other coverage and affirmative statements as the Agent or its counsel may reasonably require.

(xv) Copies of recorded and/or filed releases, reconveyances and terminations of all prior liens, mechanic lien foreclosures and/or lis pendens which appear of record against the Real Property within one hundred twenty (120) days of the Effective Date, and evidence satisfactory to the Agent that all such items have been released or reconveyed prior to the Effective Date (it being expressly agreed and understood that, except as expressly agreed to by the Agent prior to the Effective Date, no liens will be permitted to remain by means of indemnification or by delayed reconveyance).

(xvi) With respect to any Real Property which is leased or subleased by the Borrower or any Guarantor to another Person, a rent roll, certified by a responsible officer of the Borrower as accurate and complete and setting forth such information regarding the leases and other occupancy agreements to which such Real Property is subject as the Agent may reasonably request.

(xvii) Level I environmental reports evidencing an environmental audit of the Real Property performed by an environmental consulting firm acceptable to the Agent to identify the presence of any environmental hazards, including asbestos and other waste, and which audit shall have included (a) a site visit and visual inspection of the Real Property and adjacent properties by a trained professional, (b) a review of applicable historical information about the Real Property and adjacent properties, (c) appropriate inquiries with federal, state and local environmental agencies and/or building departments, and (d) an asbestos survey in which samples were taken and tested of suspected materials.

(xviii) Such other information, documents and certifications concerning the Real Property as the Agent may reasonably request, including, without limitation, soils and geological reports, the permanent certificate of occupancy for the Real Property and all interior space therein, any applicable building/zoning code ordinances and zoning maps, and certified engineering reports.

(xix) A solvency certificate in form and substance acceptable to the Agent duly executed by a responsible financial officer of the Company.

(xx) Evidence satisfactory to the Agent that all fees, costs and expenses which are payable on or before the Effective Date have been, or will on the Effective Date be, paid in full.

(xxi) Evidence reasonably satisfactory to the Agent that all acts and conditions and things (including, without limitation, the obtaining of any necessary regulatory approvals and the making of any required filings, recordings or registrations) required to be done and performed and to have happened precedent to the execution, delivery and performance of the Loan Documents and to constitute the same legal, valid and binding obligations of the parties thereto, enforceable in accordance with their respective terms, shall have been done and performed and shall have happened in compliance with all applicable laws.

(xxii) Evidence satisfactory to the Agent that on the Effective Date and after giving effect to the funding of the initial Loans hereunder: (a) all "Obligations" of the Borrower under (and as the term "Obligations" is defined in) the Existing Credit Agreement (other than the "Obligations" with respect to the Existing Letters of Credit) have been paid in full and the credit facility evidenced thereby has been terminated, (b) all "Obligations" of the Borrower under (and as the term "Obligations" is defined in) that certain Business Loan Agreement dated March 8, 2001 and the related Promissory Note dated March 2, 2001 between the Borrower and Zions have been paid in full and the credit facility evidenced thereby has been terminated, and (c) such other Indebtedness and Contingent Obligations of the Borrower and its Subsidiaries as the Agent may designate have been paid in full and the credit facilities evidenced thereby have been terminated.

(xxiii) A Borrowing Base Certificate dated no earlier than the last day of the calendar month immediately preceding the month in which the Effective Date shall occur.

(xxiv) Such other documents as any Lender or its counsel may have reasonably requested.

Notwithstanding anything contained herein, in the event the Borrower is unable to timely deliver any of the items required pursuant to this Section 4.1, the Required Lenders may, in their sole and absolute discretion, agree to waive such requirements as a condition to the first Credit Extension hereunder, subject to such conditions as the Required Lenders may elect to impose, including, without limitation, that the Borrower shall deliver the same by a date certain and with the acknowledgement and agreement of the Borrower that the failure of the Borrower to so deliver such items shall be a Default and there shall be no further cure period with respect thereto.

4.2 Each Loan. The Lenders shall not (except as otherwise set forth in Section 2.3.5 with respect to Revolving Loans for the purpose of repaying Swing Line Loans) be required to make any Credit Extension unless on the applicable Credit Extension Date:

(i) There exists no Default or Unmatured Default.

(ii) The representations and warranties contained in Article V are true and correct as of such Credit Extension Date except to the extent any such representation or warranty is stated to relate solely to an earlier date, in which case such representation or warranty shall have been true and correct on and as of such earlier date.

(iii) All legal matters incident to the making of such Credit Extension shall be reasonably satisfactory to the Lenders, the LC Issuer and their counsel.

(iv) Upon the funding of the subject Loan or issuance of the requested Facility LC, the Aggregate Outstanding Revolving Credit Exposure will not exceed the Collateral Value of the Borrowing Base (it being agreed and understood that in making such determination the Agent shall be entitled to rely on the Borrowing Base Certificate most recently provided to the Agent by the Borrower).

Each Borrowing Notice or Swing Line Borrowing Notice, as the case may be, or request for issuance of a Facility LC with respect to each such Credit Extension shall constitute a representation and warranty by the Borrower that the conditions contained in Sections 4.2(i), (ii) and (iv) have been satisfied. Any Lender may require a duly completed Compliance Certificate as a condition to making a Loan.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Lenders that:

5.1 Existence and Standing. Each of the Borrower and its Subsidiaries is a corporation, partnership (in the case of Subsidiaries only) or limited liability company duly and properly incorporated or organized, as the case may be, validly existing and (to the extent such concept applies to such entity) in good standing under the laws of its jurisdiction of incorporation or organization and has all requisite authority to conduct its business in each jurisdiction in which its business is conducted.

5.2 Authorization and Validity. The Borrower and each of the Guarantors has the power and authority and legal right to execute and deliver the Loan Documents to which it is a party and to perform its obligations thereunder. The execution and delivery by the Borrower and each of the Guarantors of the Loan Documents to which it is a party and the performance of its obligations thereunder have been duly authorized by proper corporate proceedings, and the Loan Documents to which such Person is a party constitute legal, valid and binding obligations of such Person enforceable against such Person in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

5.3 No Conflict; Government Consent. Neither the execution and delivery by the Borrower nor any of the Guarantors of the Loan Documents to which it is a party, nor the consummation of the transactions therein contemplated, nor compliance with the provisions thereof will violate (i) to the best of the Borrower's knowledge in the orderly conduct of its business, any law, rule, regulation, order, writ, judgment, injunction, decree or award binding on the Borrower or any of its Subsidiaries or (ii) the Borrower's or any Subsidiary's articles or certificate of incorporation, partnership agreement, certificate of partnership, articles or certificate of organization, by-laws, or operating or other management agreement, as the case may be, or (iii) the provisions of any indenture, instrument or agreement to which the Borrower or any of its Subsidiaries is a party or is subject, or by which it, or its Property, is bound, or conflict with or constitute a default thereunder, or result in, or require, the creation or imposition of any Lien in, of or on the Property of the Borrower or a Subsidiary pursuant to the terms of any such indenture, instrument or agreement. No order, consent, adjudication, approval, license, authorization, or validation of, or filing, recording or registration with, or exemption by, or other action in respect of any governmental or public body or authority, or any subdivision thereof, which has not been obtained by the Borrower or any of its Subsidiaries, is required to be obtained by the Borrower or any of its Subsidiaries in connection with the execution and delivery of the Loan Documents, the borrowings under this Agreement, the payment and performance by the Borrower of the Obligations or the legality, validity, binding effect or enforceability of any of the Loan Documents.

5.4 Financial Statements; Projections. The February 24, 2001 consolidated financial statements of the Borrower and its Subsidiaries heretofore delivered to the Lenders were prepared in accordance with generally accepted accounting principles in effect on the date such statements were prepared and fairly present the consolidated financial condition and operations of the Borrower and its Subsidiaries at such date and the consolidated results of their operations for the period then ended. The projections dated July 5, 2001 prepared by the Borrower and delivered pursuant to the Existing Credit Agreement remain accurate and complete in all material respects and the Borrower is not aware of any facts and circumstances arising since the date of such projections which could reasonably be expected to affect the information set forth therein in any material respect.

5.5 Material Adverse Change. Since February 24, 2001 there has been no change in the business, Property, prospects, condition (financial or otherwise) or results of operations of the Borrower and its Subsidiaries which could reasonably be expected to have a Material Adverse Effect.

5.6 Taxes. To the best of the Borrower's knowledge in the orderly conduct of its business, the Borrower and its Subsidiaries have filed all United States federal tax returns and all other tax returns which are required to be filed and have paid all taxes due pursuant to said returns or pursuant to any assessment received by the Borrower or any of its Subsidiaries, except such taxes, if any, as are being contested in good faith and as to which adequate reserves have been provided in accordance with Agreement Accounting Principles and as to which no Lien exists. The United States income tax returns of the Borrower and its Subsidiaries have been audited by the Internal Revenue Service through the fiscal year ended August 31, 1994. No tax liens have been filed and no claims are being asserted with respect to any such taxes. The charges, accruals and reserves on the books of the Borrower and its Subsidiaries in respect of any taxes or other governmental charges are adequate.

5.7 Litigation and Contingent Obligations. Except as set forth on Schedule 5.7, there is no litigation, arbitration, governmental investigation, proceeding or inquiry pending or, to the knowledge of the chief executive officer of the Borrower or any of the Authorized Officers, threatened against or affecting the Borrower or any of its Subsidiaries which could reasonably be expected to have a Material Adverse Effect or which seeks to prevent, enjoin or delay the making of any Credit Extension. Other than any liability incident to any litigation, arbitration or proceeding which could not reasonably be expected to have a Material Adverse Effect, neither the Borrower nor any Subsidiary has any material Contingent Obligations not provided for or disclosed in the financial statements referred to in Section 5.4.

5.8 Subsidiaries. Schedule 5.8 contains an accurate list of all Subsidiaries of the Borrower as of the date of this Agreement, setting forth their respective jurisdictions of organization and the percentage of their respective capital stock or other ownership interests owned by the Borrower or other Subsidiaries. All of the issued and outstanding shares of capital stock or other ownership interests of such Subsidiaries have been (to the extent such concepts are relevant with respect to such ownership interests) duly authorized and issued and are fully paid and non-assessable.

5.9 There are no Unfunded Liabilities under any Single Employer Plans. Neither the Borrower nor any other member of the Controlled Group has incurred, or is reasonably expected to incur, any withdrawal liability to Multiemployer Plans. Each Plan complies in all material respects with all applicable requirements of law and regulations, no Reportable Event has occurred with respect to any Plan, neither the Borrower nor any other member of the Controlled Group has withdrawn from any Plan or initiated steps to do so, and no steps have been taken to reorganize or terminate any Plan.

5.10 Accuracy of Information. No information, exhibit or report furnished by the Borrower or any of its Subsidiaries to the Agent or to any Lender in connection with the negotiation of, or compliance with, the Loan Documents contained any material misstatement of fact or omitted to state a material fact or any fact necessary to make the statements contained therein not misleading (other than such as have been expressly corrected in writing prior to the Effective Date).

5.11 Regulation U. Margin stock (as defined in Regulation U) constitutes less than 25% of the value of those assets of the Borrower and its Subsidiaries which are subject to any limitation on sale, pledge, or other restriction hereunder.

5.12 Material Agreements. Neither the Borrower nor any Subsidiary is a party to any agreement or instrument or subject ---------- to any charter or other corporate restriction which could reasonably be expected to have a Material Adverse Effect. Neither the Borrower nor any Subsidiary is in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in (i) any agreement to which it is a party, which default could reasonably be expected to have a Material Adverse Effect or (ii) any agreement or instrument evidencing or governing Indebtedness.

5.13 Compliance With Laws. To the best knowledge of the Borrower in the orderly conduct of its business, the Borrower and its Subsidiaries have complied with all applicable statutes, rules, regulations, orders and restrictions of any domestic or foreign government or any instrumentality or agency thereof having jurisdiction over the conduct of their respective businesses or the ownership of their respective Property.

5.14 Ownership of Properties. Except as set forth on Schedule 5.14, on the date of this Agreement, the Borrower and its Subsidiaries will have good title, free of all Liens other than those permitted by Section 6.15, to all of the Property and assets reflected in the Borrower's most recent consolidated financial statements provided to the Agent as owned by the Borrower and its Subsidiaries.

5.15 Plan Assets; Prohibited Transactions. The Borrower is not an entity deemed to hold "plan assets" within the meaning of 29 C.F.R.ss.2510.3-101 of an employee benefit plan (as defined in Section 3(3) of ERISA) which is subject to Title I of ERISA or any plan (within the meaning of Section 4975 of the Code), and neither the execution of this Agreement nor the making of Credit Extensions hereunder gives rise to a prohibited transaction within the meaning of Section 406 of ERISA or Section 4975 of the Code.

5.16 Environmental Matters. In the ordinary course of its business, the officers of the Borrower consider the effect of Environmental Laws on the business of the Borrower and its Subsidiaries, in the course of which they identify and evaluate potential risks and liabilities accruing to the Borrower due to Environmental Laws. On the basis of this consideration, the Borrower has concluded that Environmental Laws cannot reasonably be expected to have a Material Adverse Effect. Neither the Borrower nor any Subsidiary has received any notice to the effect that its operations are not in material compliance with any of the requirements of applicable Environmental Laws or are the subject of any federal or state investigation evaluating whether any remedial action is needed to respond to a release of any toxic or hazardous waste or substance into the environment, which non-compliance or remedial action could reasonably be expected to have a Material Adverse Effect.

5.17 Investment Company Act. Neither the Borrower nor any Subsidiary is an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

5.18 Public Utility Holding Company Act. Neither the Borrower nor any Subsidiary is a "holding company" or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company", within the meaning of the Public Utility Holding Company Act of 1935, as amended.

5.19 Subordinated Indebtedness. The Obligations constitute senior indebtedness which is entitled to the benefits of the subordination provisions of all outstanding Subordinated Indebtedness.

5.20 Insurance. The certificate signed by an Authorized Officer reasonably acceptable to the Agent, that attests to the existence and adequacy of, and summarizes, the property and casualty insurance program carried by the Borrower with respect to itself and its Subsidiaries and that has been furnished by the Borrower to the Agent and the Lenders, is complete and accurate. This summary includes the insurer's or insurers' name(s), policy number(s), expiration date(s), amount(s) of coverage, type(s) of coverage, exclusion(s), and deductibles. This summary also includes similar information, and describes any reserves, relating to any self-insurance program that is in effect. The Agent for the benefit of the Credit Providers has been named as loss payee or co-insured, as applicable, on all such insurance.

5.21 Solvency.

(i) Immediately after the consummation of the transactions to occur on the date hereof and immediately following the making of each Credit Extension made on the Effective Date and after giving effect to the application of the proceeds of such Credit Extension, (a) the fair value of the assets of the Borrower and its Subsidiaries on a consolidated basis, at a fair valuation, will exceed the debts and liabilities, subordinated, contingent or otherwise, of the Borrower and its Subsidiaries on a consolidated basis; (b) the present fair saleable value of the Property of the Borrower and its Subsidiaries on a consolidated basis will be greater than the amount that will be required to pay the probable liability of the Borrower and its Subsidiaries on a consolidated basis on their debts and other liabilities, subordinated, contingent or otherwise, as such debts and other liabilities become absolute and matured; (c) the Borrower and its Subsidiaries on a consolidated basis will be able to pay their debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured; and (d) the Borrower and its Subsidiaries on a consolidated basis will not have unreasonably small capital with which to conduct the businesses in which they are engaged as such businesses are now conducted and are proposed to be conducted after the date hereof.

(ii) The Borrower does not intend to, or to permit any of its Subsidiaries to, and does not believe that it or any of its Subsidiaries will, incur debts beyond its ability to pay such debts as they mature, taking into account the timing of and amounts of cash to be received by it or any such Subsidiary and the timing of the amounts of cash to be payable on or in respect of its Indebtedness or the Indebtedness of any such Subsidiary.

5.22 Real Property. With respect to each parcel of Real Property:

(i) The Real Property is in good condition, reasonable wear and tear excepted, and, to the best of the Borrower's knowledge in the orderly conduct of its business, is in compliance in all material respects with all applicable laws and regulations, including, without limitation, all building codes and environmental, zoning and land use laws, and with all applicable building permits, restrictions of record and any agreements affecting the Real Property and any judgment, order or decree.

(ii) The Real Property is insured against damage, destruction and loss in accordance with the requirements of the Loan Documents.

(iii) All contracts, agreements, licenses, permits, variances, commitments, undertakings and arrangements necessary for the continued operation of the Real Property in the manner in which the same is being operated at the Effective Date are in full force and effect.

(iv) All water, sewer, gas, electric, telephone, and drainage facilities and all other utilities required by law or by the normal use and operation of the Real Property are installed to the property lines of the Real Property, are connected pursuant to valid permits, and are adequate to service the Real Property and to permit full compliance with all requirements of law and normal usage of the Real Property.

(v) No condemnation proceeding involving the Real Property or any portion thereof has been commenced or, to the Borrower's knowledge, is contemplated by any governmental authority, nor has any portion of the Real Property been damaged due to fire or other casualty, except as disclosed to the Agent in writing.

(vi) The Borrower or the Subsidiary, as applicable, has obtained all easements and rights of way necessary for the normal use and operation of the Real Property and to insure vehicular and pedestrian ingress to and egress from the Real Property.

ARTICLE VI

COVENANTS

During the term of this Agreement, unless the Required Lenders shall otherwise consent in writing:

6.1. Financial Reporting. The Borrower will maintain, for itself and each Subsidiary, a system of accounting established and administered in accordance with generally accepted accounting principles, and furnish to the Lenders:

(i) Within 90 days after the close of each of its fiscal years, an unqualified audit report certified by independent certified public accountants acceptable to the Lenders, prepared in accordance with Agreement Accounting Principles on a consolidated and consolidating basis (consolidating statements need not be certified by such accountants) for itself and its Subsidiaries, including balance sheets as of the end of such period, related profit and loss and reconciliation of changes in shareholders' equity statements, and a statement of cash flows, accompanied by (a) any management letter prepared by said accountants, and (b) a certificate of said accountants that, in the course of their examination necessary for their certification of the foregoing, they have obtained no knowledge of any Default or Unmatured Default, or if, in the opinion of such accountants, any Default or Unmatured Default shall exist, stating the nature and status thereof.

(ii) Within 45 days after the close of the first three quarterly periods of each of its fiscal years, for itself and its Subsidiaries, consolidated and consolidating unaudited balance sheets as at the close of each such period and consolidated and consolidating profit and loss and reconciliation of changes in shareholders' equity statements and a statement of cash flows for the period from the beginning of such fiscal year to the end of such quarter, all certified by an Authorized Officer reasonably acceptable to the Agent.

(iii) Together with the financial statements required under Sections 6.1(i) and (ii), a Compliance Certificate signed by an Authorized Officer reasonably acceptable to the Agent showing the calculations necessary to determine compliance with this Agreement and stating that no Default or Unmatured Default exists, or if any Default or Unmatured Default exists, stating the nature and status thereof.

(iv) No later than the fifteenth day of each calendar month (or if such fifteenth day is not a Business Day, the next succeeding Business Day), as of the end of the immediately preceding calendar month, a Borrowing Base Certificate.

(v) Within 270 days after the close of each fiscal year, a statement of the Unfunded Liabilities of each Single Employer Plan, certified as correct by an actuary enrolled under ERISA.

(vi) As soon as possible and in any event within 10 days after the Borrower knows that any Reportable Event has occurred with respect to any Plan, a statement, signed by an Authorized Officer reasonably acceptable to the Agent, describing said Reportable Event and the action which the Borrower proposes to take with respect thereto.

(vii) As soon as possible and in any event within 10 days after receipt by the Borrower, a copy of (a) any notice or claim to the effect that the Borrower or any of its Subsidiaries is or may be liable to any Person as a result of the release by the Borrower, any of its Subsidiaries, or any other Person of any toxic or hazardous waste or substance into the environment, and (b) any notice alleging any violation of any federal, state or local environmental, health or safety law or regulation by the Borrower or any of its Subsidiaries, which, in either case, could reasonably be expected to have a Material Adverse Effect.

(viii) Promptly upon the furnishing thereof to the shareholders of the Borrower, copies of all financial statements, reports and proxy statements so furnished.

(ix) Promptly upon the filing thereof, copies of all registration statements and annual, quarterly, monthly or other regular reports which the Borrower or any of its Subsidiaries files with the Securities and Exchange Commission.

(x) As soon as available, but in any event within 90 days after the beginning of each fiscal year of the Borrower, a copy of the plan and forecast (including a projected consolidated and consolidating balance sheet, income statement and funds flow statement) of the Borrower for such fiscal year, broken down on a fiscal quarter by fiscal quarter basis.

(xi) Such other information (including non-financial information) as the Agent or any Lender may from time to time reasonably request.

6.2. Use of Proceeds. The Borrower will use the proceeds of the Credit Extensions for general corporate purposes The Borrower will not, nor will it permit any Subsidiary to, use any of the proceeds of the Advances to purchase or carry any "margin stock" (as defined in Regulation U).

6.3. Notice of Default. The Borrower will, and will cause each Subsidiary to, give prompt notice in writing to the Lenders of the occurrence of any Default or Unmatured Default and of any other development, financial or otherwise which could reasonably be expected to have a Material Adverse Effect.

6.4. Conduct of Business. The Borrower will, and will cause each Subsidiary to, carry on and conduct its business in substantially the same manner and in substantially the same fields of enterprise as it is presently conducted and do all things necessary to remain duly incorporated or organized, validly existing and (to the extent such concept applies to such entity) in good standing as a domestic corporation, partnership or limited liability company in its jurisdiction of incorporation or organization, as the case may be, and maintain all requisite authority to conduct its business in each jurisdiction in which its business is conducted.

6.5. Taxes. The Borrower will, and will cause each Subsidiary to, timely file complete and correct United States federal and applicable foreign, state and local tax returns required by law and pay when due all taxes, assessments and governmental charges and levies upon it or its income, profits or Property, except those which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves have been set aside in accordance with Agreement Accounting Principles.

6.6. Insurance. The Borrower will, and will cause each Subsidiary to, maintain with financially sound and reputable insurance companies insurance on all their Property in such amounts and covering such risks as is consistent with sound business practice, and the Borrower will furnish to any Lender upon request full information as to the insurance carried.

6.7. Compliance with Laws. The Borrower will, and will cause each Subsidiary to, comply with all laws, rules, regulations, orders, writs, judgments, injunctions, decrees or awards to which it may be subject including, without limitation, all Environmental Laws.

6.8. Maintenance of Properties. The Borrower will, and will cause each Subsidiary to, do all things necessary to maintain, preserve, protect and keep its Property in good repair, working order and condition, and make all necessary and proper repairs, renewals and replacements so that its business carried on in connection therewith may be properly conducted at all times.

6.9. Inspection. The Borrower will, and will cause each Subsidiary to, upon reasonable notice to the Borrower so long as there has not occurred a Default or an Unmatured Default, permit the Agent and the Lenders, by their respective representatives and agents, to inspect any of the Property, books and financial records of the Borrower and each Subsidiary, to examine and make copies of the books of accounts and other financial records of the Borrower and each Subsidiary, to conduct inventory inspections and audits and other valuations of the Collateral and to discuss the affairs, finances and accounts of the Borrower and each Subsidiary with, and to be advised as to the same by, their respective officers at such reasonable times and intervals as the Agent or any Lender may designate.

6.10. Limitations on Dividends and Stock Repurchases. The Borrower will not, nor will it permit any Subsidiary to:

(i) Declare or pay any dividends or make any distributions on its capital stock (other than dividends payable in its own capital stock), except that: (a) any Subsidiary may declare and pay dividends or make distributions to the Borrower or to a Wholly-Owned Subsidiary, and (b) so long as there does not exist a Default or an Unmatured Default and the same would not exist following the making of such payment or distribution, the Borrower may pay dividends on preferred stock outstanding on the Effective Date; provided, however, that all such dividends shall be made "in kind" and not as cash payments until the later to occur of: (y) the end of the period under which such "in kind" payments are permitted to be made on account of such preferred stock pursuant to the terms thereof, and (z) July 31, 2002; or

(ii) Redeem, repurchase or otherwise acquire or retire any of its capital stock at any time outstanding, except that so long as there does not exist a Default or an Unmatured Default and the same would not exist following the making of such redemption, repurchase, acquisition or retirement the Borrower may reacquire, in non-cash transactions (as opposed to cash or deferred payment transactions), from current and former employees of the Borrower and its Subsidiaries shares of its capital stock with a fair market value at the time of such reacquisition not to exceed $4,000,000 from the Effective Date to and including the date the Obligations are paid and performed in full and any commitment of the Lenders to make Loans or issue Facility LCs has terminated.

6.11 Indebtedness. The Borrower will not, nor will it permit any Subsidiary to, create, incur or suffer to exist any Indebtedness, except:

(i) The Loans and the Reimbursement Obligations.

(ii) Indebtedness existing on the date hereof and described in **Schedule 6.11** (which Schedule shall not include Indebtedness existing on the date hereof which will be repaid in full and the credit facilities evidenced thereby terminated on the Effective Date after giving effect to the funding of Loans hereunder on such date).

(iii) Indebtedness arising under Rate Management Transactions related to the Loans entered into with any of the Lenders.

(iv) Indebtedness consisting of Contingent Obligations permitted pursuant to Section 6.22 below.

(v) Other Indebtedness in an aggregate amount not to exceed $2,000,000 outstanding at any date.

6.12 Merger. The Borrower will not, nor will it permit any Subsidiary to, merge or consolidate with or into any other Person, except that a Subsidiary may merge into the Borrower or a Wholly-Owned Subsidiary.

6.13 Sale of Assets. The Borrower will not, nor will it permit any Subsidiary to, lease, sell or otherwise dispose of its Property to any other Person, except:

(i) Sales of inventory in the ordinary course of business.

(ii) Leases, sales or other dispositions of its Property that, together with all other Property of the Borrower and its Subsidiaries previously leased, sold or disposed of (other than inventory in the ordinary course of business) as permitted by this Section during the twelve-month period ending with the month in which any such lease, sale or other disposition occurs, have an aggregate fair market value not to exceed $1,000,000.

(iii) The sale of certain of the real property pursuant to the Purchase Agreement dated June 26, 2001 between Franklin Development Corporation and CB Richard Ellis Investors, L.L.C. and the Purchase Agreement dated May 9, 2001 between Franklin Development Corporation and Martin C. Shelley, subject in the case of each such sale to receipt of the mandatory prepayment required with respect thereto pursuant to Section 2.7(iv)(a) above and, to the extent such real property is Real Property, to satisfaction of standard and customary release conditions (such as assurance of ingress and egress and no violation of applicable subdivision laws) as set forth in the related Collateral Documents.

(iv) Other sales consented to in writing by the Required Lenders from time to time in their sole and absolute discretion.

6.14 Investments and Acquisitions. The Borrower will not, nor will it permit any Subsidiary to, make or suffer to exist any Investments (including without limitation, loans and advances to, and other Investments in, Subsidiaries), or commitments therefor, or to create any Subsidiary or to become or remain a partner in any partnership or joint venture, or to make any Acquisition of any Person, except:

(i) Cash Equivalent Investments.

(ii) Existing Investments in Subsidiaries described in **Schedule 5.8** and other Investments in existence on the date hereof and described in **Schedule 6.14**.

(iii) Other Investments and Acquisitions made during any consecutive twelve-month period, tested as of the end of each fiscal quarter, for a total consideration not to exceed $1,000,000.

6.15 Liens. The Borrower will not, nor will it permit any Subsidiary to, create, incur, or suffer to exist any Lien in, of or on the Property of the Borrower or any of its Subsidiaries, except:

(i) Liens for taxes, assessments or governmental charges or levies on its Property if the same shall not at the time be delinquent or thereafter can be paid without penalty, or are being contested in good faith and by appropriate proceedings and for which adequate reserves in accordance with Agreement Accounting Principles shall have been set aside on its books.

(ii) Liens imposed by law, such as carriers', warehousemen's and mechanics' liens and other similar liens arising in the ordinary course of business which secure payment of obligations not more than 60 days past due or which are being contested in good faith by appropriate proceedings and for which adequate reserves shall have been set aside on its books.

(iii) Liens arising out of pledges or deposits under worker's compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits, or similar legislation.

(iv) Utility easements, building restrictions and such other encumbrances or charges against real property as are of a nature generally existing with respect to properties of a similar character and which do not in any material way affect the marketability of the same or interfere with the use thereof in the business of the Borrower or its Subsidiaries.

(v) Liens existing on the date hereof and described in Schedule 5.14.

6.16 Capital Expenditures. The Borrower will not, nor will it permit any Subsidiary to, expend, or be committed to expend, for Consolidated Capital Expenditures in excess of during any fiscal year (on a non-cumulative basis) the lesser of 40% of the prior fiscal year's Consolidated EBITDA and $28,000,000.

6.17 Affiliates. The Borrower will not, and will not permit any Subsidiary to, enter into any transaction (including, without limitation, the purchase or sale of any Property or service) with, or make any payment or transfer to, any Affiliate except in the ordinary course of business and pursuant to the reasonable requirements of the Borrower's or such Subsidiary's business and upon fair and reasonable terms no less favorable to the Borrower or such Subsidiary than the Borrower or such Subsidiary would obtain in a comparable arms-length transaction.

6.18 Restriction on Negative Pledges. The Borrower will not, and will not permit any Subsidiary to, enter into, assume or become subject to any agreement prohibiting or otherwise restricting the creation or assumption of any Lien upon its Properties, whether now owned or hereafter acquired, or requiring the grant of any security for such obligations if security is given for some other obligation, except pursuant to this Agreement and the other Loan Documents, the Existing Premier Agendas Facility and the mortgage facilities described on Annex 6.

6.19 Subordinated Indebtedness. The Borrower will not, and will not permit any Subsidiary to, make any amendment or modification to the indenture, note or other agreement evidencing or governing any Subordinated Indebtedness, or directly or indirectly voluntarily prepay, defease or in substance defease, purchase, redeem, retire or otherwise acquire, any Subordinated Indebtedness.

6.20 Sale of Accounts. The Borrower will not, nor will it permit any Subsidiary to, sell or otherwise dispose of any notes receivable or accounts receivable, with or without recourse.

6.21 Sale and Leaseback Transactions and other Off-Balance Sheet Liabilities. Except as otherwise consented to in writing by the Required Lenders in their sole and absolute discretion, the Borrower will not, nor will it permit any Subsidiary to, enter into or suffer to exist any (i) Sale and Leaseback Transaction or (ii) any other transaction pursuant to which it incurs or has incurred Off-Balance Sheet Liabilities. The Lenders hereby consent to the execution, delivery and performance of the obligations under the Agreement for Information Technology Services dated April 1, 2001, as amended prior to the Effective Date, between the Borrower, Electronic Data Systems Corporation and EDS Information Services, L.L.C.

6.22 Contingent Obligations. The Borrower will not, nor will it permit any Subsidiary to, make or suffer to exist any Contingent Obligation (including, without limitation, any Contingent Obligation with respect to the obligations of a Subsidiary), except (i) by endorsement of instruments for deposit or collection in the ordinary course of business, (ii) the Reimbursement Obligations and (iii) Contingent Obligations set forth on Schedule 6.22 hereto.

6.23 Financial Covenants.

6.24 Fixed Charge Coverage Ratio. The Borrower will not permit the ratio, determined as of the end of each of its fiscal quarters for the then most-recently ended four fiscal quarters, of (i) Consolidated EBITDA plus Consolidated Rent Expense to (ii) Consolidated Interest Expense, plus Consolidated Rent Expense, plus current maturities of Indebtedness (including the principal portion of Capitalized Lease Obligations and any current maturities of Loans hereunder but excluding, in any event, the Initial Installment (to the extent paid on or prior to November 30, 2001) and excluding all amounts paid during the calculation period on account of principal outstanding under the Existing Premier Agendas Facility (to the extent such payments permanently reduce the commitment of Bank of America, N.A. thereunder)), plus expenses for taxes paid in cash, plus dividends paid in cash, all calculated for the Borrower and its Subsidiaries on a consolidated basis, to be less than: (a) for the fiscal quarter ending May 26, 2001, 1.15:1.00, (b) for the last fiscal quarter of fiscal year 2001, 1.25:1.00, (c) for the first fiscal quarter of fiscal year 2002, 1.25:1.00, (d) for the second and third fiscal quarters of fiscal year 2002, 1.40:1.00, (e) for the fourth fiscal quarter of fiscal year 2002 and for the first, second and third fiscal quarters of fiscal year 2003, 1.50:1.00, and (f) for each fiscal quarter thereafter, 1.75 to 1.0.

6.25 Leverage Ratio. The Borrower will not permit its ratio, determined as of the end of each of its fiscal quarters, of (i) Consolidated Funded Indebtedness plus the amount available for drawing under all outstanding Letters of Credit to (ii) Consolidated EBITDA for the then most-recently ended four fiscal quarters to be greater than: (a) for the fiscal quarter ending May 26, 2001, 3.00:1.00, (b) for the last fiscal quarter of fiscal year 2001, 2.75:1.00, and (c) for each fiscal quarter thereafter, 2.00:1.00.

6.26 Minimum Net Worth. The Borrower will at all times maintain Consolidated Net Worth of not less than the sum of (i) $295,000,000, plus (ii) 75% of Consolidated Net Income earned in each fiscal quarter beginning with the fiscal quarter ending May 26, 2001 (without deduction for losses), and plus (iii) 90% of the Net Cash Proceeds of any equity offering consummated after the last day of fiscal year 2000.

ARTICLE VII

DEFAULTS

The occurrence of any one or more of the following events shall constitute a Default:

7.1 Any representation or warranty made or deemed made by or on behalf of the Borrower or any of its Subsidiaries to the Lenders, the LC Issuer or the Agent under or in connection with this Agreement, any Credit Extension, or any certificate or information delivered in connection with this Agreement or any other Loan Document shall be materially false on the date as of which made; provided, however that the inaccuracy or incompleteness of any representation and warranty made or deemed made that an account receivable is an "Eligible Account" or that an item of inventory is "Eligible Inventory" shall not constitute a Default hereunder, it being the intention of the parties that the inaccuracy or incompleteness of any such representation or warranty will disqualify such account receivable or item of inventory from inclusion in the calculation of the Collateral Value of the Borrowing Base.

7.2 Nonpayment of principal of any Loan when due, nonpayment of any Reimbursement Obligation within one Business Day after the same becomes due or nonpayment of interest upon any Loan or of any commitment fee, LC Fee or other obligations under any of the Loan Documents within five days after the same becomes due.

7.3 The breach by the Borrower of any of the terms or provisions of Sections 6.2 or 6.10 through 6.23 of Article VI.

7.4 The breach by the Borrower (other than a breach which constitutes a Default under another Section of this Article VII) of any of the terms or provisions of this Agreement which is not remedied within ten days after written notice from the Agent or any Lender.

7.5 Failure of the Borrower or any of its Subsidiaries to pay when due any Indebtedness under the Existing Premier Agendas Facility or to pay when due any other Indebtedness aggregating in excess of $1,000,000 ("Material Indebtedness") or the default by the Borrower or any of its Subsidiaries in the performance (beyond the applicable grace period with respect thereto, if any) of any term, provision or condition contained in any agreement under the Existing Premier Agendas Facility or under which any such Material Indebtedness was created or is governed, or any other event shall occur or condition exist, the effect of which default or event is to cause, or to permit the holder or holders of such Indebtedness to cause, the Existing Premier Agendas Facility or such Material Indebtedness to become due prior to its stated maturity; or any Indebtedness of the Borrower or any of its Subsidiaries shall be declared to be due and payable or required to be prepaid or repurchased (other than by a regularly scheduled payment) prior to the stated maturity thereof; or the Borrower or any of its Subsidiaries shall not pay, or admit in writing its inability to pay, its debts generally as they become due.

7.6 The Borrower or any of its Subsidiaries shall (i) have an order for relief entered with respect to it under the Federal bankruptcy laws as now or hereafter in effect, (ii) make an assignment for the benefit of creditors, (iii) apply for, seek, consent to, or acquiesce in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any Substantial Portion of its Property, (iv) institute any proceeding seeking an order for relief under the Federal bankruptcy laws as now or hereafter in effect or seeking to adjudicate it a bankrupt or insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (v) take any corporate or partnership action to authorize or effect any of the foregoing actions set forth in this Section 7.6 or (vi) fail to contest in good faith any appointment or proceeding described in Section 7.7.

7.7 Without the application, approval or consent of the Borrower or any of its Subsidiaries, a receiver, trustee, examiner, liquidator or similar official shall be appointed for the Borrower or any of its Subsidiaries or any Substantial Portion of its Property, or a proceeding described in Section 7.6(iv) shall be instituted against the Borrower or any of its Subsidiaries and such appointment continues undischarged or such proceeding continues undismissed or unstayed for a period of 60 consecutive days.

7.8 Any court, government or governmental agency shall condemn, seize or otherwise appropriate, or take custody or control of, all or any portion of the Property of the Borrower and its Subsidiaries which, when taken together with all other Property of the Borrower and its Subsidiaries so condemned, seized, appropriated, or taken custody or control of, during the twelve-month period ending with the month in which any such action occurs, constitutes a Substantial Portion.

7.9 The Borrower or any of its Subsidiaries shall fail within 30 days to pay, bond or otherwise discharge one or more (i) judgments or orders for the payment of money in excess of $5,000,000 (or the equivalent thereof in currencies other than U.S. Dollars) in the aggregate, or (ii) nonmonetary judgments or orders which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect, which judgment(s), in any such case, is/are not stayed on appeal or otherwise being appropriately contested in good faith.

7.10 There shall exist any Unfunded Liabilities under any Single Employer Plans or any Reportable Event shall occur in connection with any Plan.

7.11 The Borrower or any other member of the Controlled Group shall have been notified by the sponsor of a Multiemployer Plan that it has incurred withdrawal liability to such Multiemployer Plan in an amount which, when aggregated with all other amounts required to be paid to Multiemployer Plans by the Borrower or any other member of the Controlled Group as withdrawal liability (determined as of the date of such notification), exceeds $1,000,000.

7.12 The Borrower or any other member of the Controlled Group shall have been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization or is being terminated, within the meaning of Title IV of ERISA, if as a result of such reorganization or termination the aggregate annual contributions of the Borrower and the other members of the Controlled Group (taken as a whole) to all Multiemployer Plans which are then in reorganization or being terminated have been or will be increased over the amounts contributed to such Multiemployer Plans for the respective plan years of each such Multiemployer Plan immediately preceding the plan year in which the reorganization or termination occurs by an amount exceeding $1,000,000

7.13 The Borrower or any of its Subsidiaries shall (i) be the subject of any proceeding or investigation pertaining to the release by the Borrower, any of its Subsidiaries or any other Person of any toxic or hazardous waste or substance into the environment, or (ii) violate any Environmental Law, which, in the case of an event described in clause (i) or clause (ii), could reasonably be expected to have a Material Adverse Effect.

7.14 Any Change in Control shall occur.

7.15 Nonpayment by the Borrower or any Subsidiary of any Rate Management Obligation when due or the breach by the Borrower or any Subsidiary of any term, provision or condition contained in any Rate Management Transaction.

7.16 Any Guaranty shall fail to remain in full force or effect or any action shall be taken to discontinue or to assert the invalidity or unenforceability of any Guaranty, or any Guarantor shall fail to comply with any of the terms or provisions of any Guaranty or any Guarantor Collateral Document to which it is a party, or any Guarantor shall deny that it has any further liability under any Guaranty to which it is a party, or shall give notice to such effect.

7.17 Any Collateral Document shall for any reason fail to create a valid and perfected first priority security interest in any Collateral purported to be covered thereby, except as permitted by the terms of any Collateral Document or otherwise agreed by the Agent in writing, or any Collateral Document shall fail to remain in full force or effect or any action shall be taken to discontinue or to assert the invalidity or unenforceability of any Collateral Document.

ARTICLE VIII

ACCELERATION, WAIVERS, AMENDMENTS AND REMEDIES

8.1 Acceleration; Facility LCs Collateral Account.

(i) If any Default described in Section 7.6 or 7.7 occurs with respect to the Borrower, the obligations of the Lenders to make Loans hereunder and the obligation and power of the LC Issuer to issue Facility LCs shall automatically terminate and the Obligations shall immediately become due and payable without any election or action on the part of the Agent, the LC Issuer or any Lender and the Borrower will be and become thereby unconditionally obligated, without any further notice, act or demand, to pay to the Agent an amount in immediately available funds, which funds shall be held in the Facility LC Collateral Account, equal to the difference of (x) the amount of LC Obligations at such time, less (y) the amount on deposit in the Facility LC Collateral Account at such time which is free and clear of all rights and claims of third parties and has not been applied against the Obligations (such difference, the "Collateral Shortfall Amount"). If any other Default occurs, the Required Lenders (or the Agent with the consent of the Required Lenders) may (a) terminate or suspend the obligations of the Lenders to make Loans hereunder and the obligation and power of the LC Issuer to issue Facility LCs, or declare the Obligations to be due and payable, or both, whereupon the Obligations shall become immediately due and payable, without presentment, demand, protest or notice of any kind, all of which the Borrower hereby expressly waives, and (b) upon notice to the Borrower and in addition to the continuing right to demand payment of all amounts payable under this Agreement, make demand on the Borrower to pay, and the Borrower will, forthwith upon such demand and without any further notice or act, pay to the Agent the Collateral Shortfall Amount, which funds shall be deposited in the Facility LC Collateral Account.

(ii) If at any time while any Default is continuing, the Agent determines that the Collateral Shortfall Amount at such time is greater than zero, the Agent may make demand on the Borrower to pay, and the Borrower will, forthwith upon such demand and without any further notice or act, pay to the Agent the Collateral Shortfall Amount, which funds shall be deposited in the Facility LC Collateral Account.

(iii) The Agent may at any time or from time to time after funds are deposited in the Facility LC Collateral Account, apply such funds to the payment of the Obligations and any other amounts as shall from time to time have become due and payable by the Borrower to the Lenders or the LC Issuer under the Loan Documents.

(iv) At any time while any Default is continuing, neither the Borrower nor any Person claiming on behalf of or through the Borrower shall have any right to withdraw any of the funds held in the Facility LC Collateral Account. After all of the Obligations have been indefeasibly paid in full and the Aggregate Commitment has been terminated, any funds remaining in the Facility LC Collateral Account shall be returned by the Agent to the Borrower or paid to whomever may be legally entitled thereto at such time.

(v) If, within 30 days after acceleration of the maturity of the Obligations or termination of the obligations of the Lenders to make Loans and the obligation and power of the LC Issuer to issue Facility LCs hereunder as a result of any Default (other than any Default as described in Section 7.6 or 7.7 with respect to the Borrower) and before any judgment or decree for the payment of the Obligations due shall have been obtained or entered, the Required Lenders (in their sole discretion) shall so direct, the Agent shall, by notice to the Borrower, rescind and annul such acceleration and/or termination.

8.2 Amendments. Subject to the provisions of this Article VIII, the Required Lenders (or the Agent with the consent in writing of the Required Lenders) and the Borrower may enter into agreements supplemental hereto for the purpose of adding or modifying any provisions to the Loan Documents or changing in any manner the rights of the Lenders or the Borrower hereunder or waiving any Default hereunder; provided, however, that no such supplemental agreement shall, without the consent of 100% of the Lenders:

(i) Extend the final maturity of any Loan, or extend the expiry date of any Facility LC to a date after the Facility Termination Date or postpone any regularly scheduled payment of principal of any Loan or forgive all or any portion of the principal amount thereof or any Reimbursement Obligation related thereto, or reduce the rate or extend the time of payment of interest or fees thereon or Reimbursement Obligations related thereto.

(ii) Reduce the percentage specified in the definition of Required Lenders.

(iii) Extend the Facility Termination Date or reduce the amount or extend the payment date for, the mandatory payments required under Section 2.2, or increase the amount of the Aggregate Revolving Credit Commitment, the Revolving Credit Commitment of any Lender hereunder or the commitment to issue Facility LCs, or permit the Borrower to assign its rights under this Agreement.

(iv) Release any Guarantor or release all or substantially all of any Collateral except as expressly permitted pursuant to the Loan Documents.

(v) Amend this Section 8.2.

No amendment of any provision of this Agreement relating to the Agent shall be effective without the written consent of the Agent, no amendment of any provision of this Agreement relating to the Swing Line Lender or any Swing Line Loans shall be effective without the written consent of the Swing Line Lender and no amendment of any provision relating to the LC Issuer shall be effective without the written consent of the LC Issuer. The Agent may waive payment of the fee required under Section 12.3.2 without obtaining the consent of any other party to this Agreement.

8.3 Preservation of Rights. No delay or omission of the Lenders, the LC Issuer or the Agent to exercise any right under the Loan Documents shall impair such right or be construed to be a waiver of any Default or an acquiescence therein, and the making of a Credit Extension notwithstanding the existence of a Default or the inability of the Borrower to satisfy the conditions precedent to such Credit Extension shall not constitute any waiver or acquiescence. Any single or partial exercise of any such right shall not preclude other or further exercise thereof or the exercise of any other right, and no waiver, amendment or other variation of the terms, conditions or provisions of the Loan Documents whatsoever shall be valid unless in writing signed by the Lenders required pursuant to Section 8.2, and then only to the extent in such writing specifically set forth. All remedies contained in the Loan Documents or by law afforded shall be cumulative and all shall be available to the Agent, the LC Issuer and the Lenders until the Obligations have been paid in full.

ARTICLE IX

GENERAL PROVISIONS

9.1 PSurvival of Representations. All representations and warranties of the Borrower contained in this Agreement shall survive the making of the Credit Extensions herein contemplated.

9.2 Governmental Regulation. Anything contained in this Agreement to the contrary notwithstanding, neither the LC Issuer nor any Lender shall be obligated to extend credit to the Borrower in violation of any limitation or prohibition provided by any applicable statute or regulation.

9.3 Headings. Section headings in the Loan Documents are for convenience of reference only, and shall not govern the interpretation of any of the provisions of the Loan Documents.

9.4 Entire Agreement. The Loan Documents embody the entire agreement and understanding among the Borrower, the Agent, the LC Issuer and the Lenders and supersede all prior agreements and understandings among the Borrower, the Agent, the LC Issuer and the Lenders relating to the subject matter thereof other than any fee letter described in Section 10.13.

9.5 Several Obligations; Benefits of this Agreement. The respective obligations of the Lenders hereunder are several and not joint and no Lender shall be the partner or agent of any other (except to the extent to which the Agent is authorized to act as such). The failure of any Lender to perform any of its obligations hereunder shall not relieve any other Lender from any of its obligations hereunder. This Agreement shall not be construed so as to confer any right or benefit upon any Person other than the parties to this Agreement and their respective successors and assigns, provided, however, that the parties hereto expressly agree that the Arranger shall enjoy the benefits of the provisions of Sections 9.6, 9.10 and 10.11 to the extent specifically set forth therein and shall have the right to enforce such provisions on its own behalf and in its own name to the same extent as if it were a party to this Agreement.

9.6 Expenses; Indemnification.

(i) The Borrower shall reimburse the Agent and the Arranger for any costs, internal charges and out-of-pocket expenses (including attorneys' fees and time charges of attorneys for the Agent, which attorneys may be employees of the Agent) paid or incurred by the Agent or the Arranger in connection with the preparation, negotiation, execution, delivery, syndication, review, amendment, modification, and administration of the Loan Documents, including, without limitation, in connection with inspections, audits and valuations of the Collateral (collectively "Collateral Audits"); provided, however, that so long as there has not occurred a Default or an Unmatured Default the Borrower shall not be obligated to reimburse the Agent or the Arranger for more than one Collateral Audit conducted during any consecutive 12-month period. The Borrower also agrees to reimburse the Agent, the Arranger, the LC Issuer and the Lenders for any costs, internal charges and out-of-pocket expenses (including attorneys' fees and time charges of attorneys for the Agent, the Arranger, the LC

Issuer and the Lenders, which attorneys may be employees of the Agent, the Arranger, the LC Issuer or the Lenders) paid or incurred by the Agent, the Arranger, the LC Issuer or any Lender in connection with the collection and enforcement of the Loan Documents. Expenses being reimbursed by the Borrower under this Section include, without limitation, costs and expenses incurred in connection with the Reports described in the following sentence. The Borrower acknowledges that from time to time Bank One may prepare and may distribute to the Lenders (but shall have no obligation or duty to prepare or to distribute to the Lenders) certain audit reports (the "Reports") pertaining to the Borrower's assets for internal use by Bank One from information furnished to it by or on behalf of the Borrower, after Bank One has exercised its rights of inspection pursuant to this Agreement.

(ii) The Borrower hereby further agrees to indemnify the Agent, the Arranger, the LC Issuer, each Lender, their respective affiliates, and each of their directors, officers and employees against all losses, claims, damages, penalties, judgments, liabilities and expenses (including, without limitation, all expenses of litigation or preparation therefor whether or not the Agent, the Arranger, the LC Issuer or any Lender is a party thereto) which any of them may pay or incur arising out of or relating to this Agreement, the other Loan Documents, the transactions contemplated hereby or the direct or indirect application or proposed application of the proceeds of any Credit Extension hereunder except to the extent that they are determined in a final non-appealable judgment by a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of the party seeking indemnification. The obligations of the Borrower under this Section 9.6 shall survive the termination of this Agreement.

9.7 Numbers of Documents. All statements, notices, closing documents, and requests hereunder shall be furnished to the Agent with sufficient counterparts so that the Agent may furnish one to each of the Lenders.

9.8 Accounting. Except as provided to the contrary herein, all accounting terms used herein shall be interpreted and all accounting determinations hereunder shall be made in accordance with Agreement Accounting Principles.

9.9 Severability of Provisions. Any provision in any Loan Document that is held to be inoperative, unenforceable, or invalid in any jurisdiction shall, as to that jurisdiction, be inoperative, unenforceable, or invalid without affecting the remaining provisions in that jurisdiction or the operation, enforceability, or validity of that provision in any other jurisdiction, and to this end the provisions of all Loan Documents are declared to be severable.

9.10 Nonliability of Lenders. The relationship between the Borrower on the one hand and the Lenders, the LC Issuer and the Agent on the other hand shall be solely that of borrower and lender. Neither the Agent, the Arranger, the LC Issuer nor any Lender shall have any fiduciary responsibilities to the Borrower. Neither the Agent, the Arranger, the LC Issuer nor any Lender undertakes any responsibility to the Borrower to review or inform the Borrower of any matter in connection with any phase of the Borrower's business or operations. The Borrower agrees that neither the Agent, the Arranger, the LC Issuer nor any Lender shall have liability to the Borrower (whether sounding in tort, contract or otherwise) for losses suffered by the Borrower in connection with, arising out of, or in any way related to, the transactions contemplated and the relationship established by the Loan Documents, or any act, omission or event occurring in connection therewith, unless it is determined in a final non-appealable judgment by a court of competent jurisdiction that such losses resulted from the gross negligence or willful misconduct of the party from which recovery is sought. Neither the Agent, the Arranger, the LC Issuer nor any Lender shall have any liability with respect to, and the Borrower hereby waives, releases and agrees not to sue for, any special, indirect or consequential damages suffered by the Borrower in connection with, arising out of, or in any way related to the Loan Documents or the transactions contemplated thereby.

9.11 Confidentiality. Each Lender agrees to hold any confidential information which it may receive from the Borrower pursuant to this Agreement in confidence, except for disclosure (i) to its Affiliates and to other Lenders and their respective Affiliates, (ii) to legal counsel, accountants, and other professional advisors to such Lender or to a Transferee, (iii) to regulatory officials, (iv) to any Person as requested pursuant to or as required by law, regulation, or legal process, (v) to any Person in connection with any legal proceeding to which such Lender is a party, (vi) to such Lender's direct or indirect contractual counterparties in swap agreements or to legal counsel, accountants and other professional advisors to such counterparties, (vii) to rating agencies if requested or required by such agencies in connection with a rating relating to the Advances hereunder and (viii) permitted by Section 12.4.

9.12 Nonreliance. Each Lender hereby represents that it is not relying on or looking to any margin stock (as defined in Regulation U of the Board of Governors of the Federal Reserve System) for the repayment of the Credit Extensions provided for herein.

9.13 Disclosure. The Borrower and each Lender hereby (i) acknowledge and agree that Bank One and/or its Affiliates from time to time may hold investments in, make other loans to or have other relationships with the Borrower and its Affiliates, and (ii) waive any liability of Bank One or such Affiliate of Bank One to the Borrower or any Lender, respectively, arising out of or resulting from such investments, loans or relationships other than liabilities arising out of the gross negligence or willful misconduct of Bank One or its Affiliates.

ARTICLE X

THE AGENT

10.1 Appointment; Nature of Relationship. Bank One, NA is hereby appointed by each of the Lenders as its contractual representative (herein referred to as the "Agent") hereunder and under each other Loan Document, and each of the Lenders irrevocably authorizes the Agent to act as the contractual representative of such Lender with the rights and duties expressly set forth herein and in the other Loan Documents. The Agent agrees to act as such contractual representative upon the express conditions contained in this Article X. Notwithstanding the use of the defined term "Agent," it is expressly understood and agreed that the Agent shall not have any fiduciary responsibilities to any Lender by reason of this Agreement or any other Loan Document and that the Agent is merely acting as the contractual representative of the Lenders with only those duties as are expressly set forth in this Agreement and the other Loan Documents. In its capacity as the Lenders' contractual representative, the Agent (i) does not hereby assume any fiduciary duties to any of the Lenders, (ii) is a "representative" of the Lenders within the meaning of Section 9-105 of the Uniform Commercial Code and (iii) is acting as an independent contractor, the rights and duties of which are limited to those expressly set forth in this Agreement and the other Loan Documents. Each of the Lenders hereby agrees to assert no claim against the Agent on any agency theory or any other theory of liability for breach of fiduciary duty, all of which claims each Lender hereby waives.

19.2 Powers. The Agent shall have and may exercise such powers under the Loan Documents as are specifically delegated to the Agent by the terms of each thereof, together with such powers as are reasonably incidental thereto. The Agent shall have no implied duties to the Lenders, or any obligation to the Lenders to take any action thereunder except any action specifically provided by the Loan Documents to be taken by the Agent.

10.3 General Immunity. Neither the Agent nor any of its directors, officers, agents or employees shall be liable to the Borrower, the Lenders or any Lender for any action taken or omitted to be taken by it or them hereunder or under any other Loan Document or in connection herewith or therewith except to the extent such action or inaction is determined in a final non-appealable judgment by a court of competent jurisdiction to have arisen from the gross negligence or willful misconduct of such Person.

10.4 No Responsibility for Loans, Recitals, etc. Neither the Agent nor any of its directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into, or verify (a) any statement, warranty or representation made in connection with any Loan Document or any borrowing hereunder; (b) the performance or observance of any of the covenants or agreements of any obligor under any Loan Document, including, without limitation, any agreement by an obligor to furnish information directly to each Lender; (c) the satisfaction of any condition specified in Article IV, except receipt of items required to be delivered solely to the Agent; (d) the existence or possible existence of any Default or Unmatured Default; (e) the validity, enforceability, effectiveness, sufficiency or genuineness of any Loan Document or any other instrument or writing furnished in connection therewith; (f) the value, sufficiency, creation, perfection or priority of any Lien in any collateral security; or (g) the financial condition of the Borrower or any guarantor of any of the Obligations or of any of the Borrower's or any such guarantor's respective Subsidiaries. The Agent shall have no duty to disclose to the Lenders information that is not required to be furnished by the Borrower to the Agent at such time, but is voluntarily furnished by the Borrower to the Agent (either in its capacity as Agent or in its individual capacity).

10.5 Action on Instructions of Lenders. The Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder and under any other Loan Document in accordance with written instructions signed by the Required Lenders, and such instructions and any action taken or failure to act pursuant thereto shall be binding on all of the Lenders. The Lenders hereby acknowledge that the Agent shall be under no duty to take any discretionary action permitted to be taken by it pursuant to the provisions of this Agreement or any other Loan Document unless it shall be requested in writing to do so by the Required Lenders. The Agent shall be fully justified in failing or refusing to take any action hereunder and under any other Loan Document unless it shall first be indemnified to its satisfaction by the Lenders pro rata against any and all liability, cost and expense that it may incur by reason of taking or continuing to take any such action.

10.6 Employment of Agents and Counsel. The Agent may execute any of its duties as Agent hereunder and under any other Loan Document by or through employees, agents, and attorneys-in-fact and shall not be answerable to the Lenders, except as to money or securities received by it or its authorized agents, for the default or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care. The Agent shall be entitled to advice of counsel concerning the contractual arrangement between the Agent and the Lenders and all matters pertaining to the Agent's duties hereunder and under any other Loan Document.

10.7 Reliance on Documents; Counsel. The Agent shall be entitled to rely upon any Note, notice, consent, certificate, affidavit, letter, telegram, statement, paper or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons, and, in respect to legal matters, upon the opinion of counsel selected by the Agent, which counsel may be employees of the Agent.

10.8 Agent's Reimbursement and Indemnification. The Lenders agree to reimburse and indemnify the Agent ratably in proportion to their respective Commitments (or, if the Commitments have been terminated, in proportion to their Commitments immediately prior to such termination) (i) for any amounts not reimbursed by the Borrower for which the Agent is entitled to reimbursement by the Borrower under the Loan Documents, (ii) for any other expenses incurred by the Agent on behalf of the Lenders, in connection with the preparation, execution, delivery, administration and enforcement of the Loan Documents (including, without limitation, for any expenses incurred by the Agent in connection with any dispute between the Agent and any Lender or between two or more of the Lenders) and (iii) for any liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind and nature whatsoever which may be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of the Loan Documents or any other document delivered in connection therewith or the transactions contemplated thereby (including, without limitation, for any such amounts incurred by or asserted against the Agent in connection with any dispute between the Agent and any Lender or between two or more of the Lenders), or the enforcement of any of the terms of the Loan Documents or of any such other documents, provided that (i) no Lender shall be liable for any of the foregoing to the extent any of the foregoing is found in a final non-appealable judgment by a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of the Agent and (ii) any indemnification required pursuant to Section 3.5(vii) shall, notwithstanding the provisions of this Section 10.8, be paid by the relevant Lender in accordance with the provisions thereof. The obligations of the Lenders under this Section 10.8 shall survive payment of the Obligations and termination of this Agreement.

10.9 Notice of Default. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Unmatured Default hereunder unless the Agent has received written notice from a Lender or the Borrower referring to this Agreement describing such Default or Unmatured Default and stating that such notice is a "notice of default". In the event that the Agent receives such a notice, the Agent shall give prompt notice thereof to the Lenders.

10.10 Rights as a Lender. In the event the Agent is a Lender, the Agent shall have the same rights and powers hereunder and under any other Loan Document with respect to its Commitment and its Loans as any Lender and may exercise the same as though it were not the Agent, and the term "Lender" or "Lenders" shall, at any time when the Agent is a Lender, unless the context otherwise indicates, include the Agent in its individual capacity. The Agent and its Affiliates may accept deposits from, lend money to, and generally engage in any kind of trust, debt, equity or other transaction, in addition to those contemplated by this Agreement or any other Loan Document, with the Borrower or any of its Subsidiaries in which the Borrower or such Subsidiary is not restricted hereby from engaging with any other Person.

10.11 Lender Credit Decision. Each Lender acknowledges that it has, independently and without reliance upon the Agent, the Arranger or any other Lender and based on the financial statements prepared by the Borrower and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement and the other Loan Documents. Each Lender also acknowledges that it will, independently and without reliance upon the Agent, the Arranger or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement and the other Loan Documents.

10.12 Successor Agent. The Agent may resign at any time by giving written notice thereof to the Lenders and the Borrower, such resignation to be effective upon the appointment of a successor Agent or, if no successor Agent has been appointed, forty-five days after the retiring Agent gives notice of its intention to resign. The Agent may be removed at any time with or without cause by written notice received by the Agent from the Required Lenders, such removal to be effective on the date specified by the Required Lenders. Upon any such resignation or removal, the Required Lenders shall have the right to appoint, on behalf of the Borrower and the Lenders, a successor Agent. If no successor Agent shall have been so appointed by the Required Lenders within thirty days after the resigning Agent's giving notice of its intention to resign, then the resigning Agent may appoint, on behalf of the Borrower and the Lenders, a successor Agent. Notwithstanding the previous sentence, the Agent may at any time without the consent of the Borrower or any Lender, appoint any of its Affiliates which is a commercial bank as a successor Agent hereunder. If the Agent has resigned or been removed and no successor Agent has been appointed, the Lenders may perform all the duties of the Agent hereunder and the Borrower shall make all payments in respect of the Obligations to the applicable Lender and for all other purposes shall deal directly with the Lenders. No successor Agent shall be deemed to be appointed hereunder until such successor Agent has accepted the appointment. Any such successor Agent shall be a commercial bank having capital and retained earnings of at least $100,000,000. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the resigning or removed Agent. Upon the effectiveness of the resignation or removal of the Agent, the resigning or removed Agent shall be discharged from its duties and obligations hereunder and under the Loan Documents. After the effectiveness of the resignation or removal of an Agent, the provisions of this Article X shall continue in effect for the benefit of such Agent in respect of any actions taken or omitted to be taken by it while it was acting as the Agent hereunder and under the other Loan Documents. In the event that there is a successor to the Agent by merger, or the Agent assigns its duties and obligations to an Affiliate pursuant to this Section 10.12, then the term "Prime Rate" as used in this Agreement shall mean the prime rate, base rate or other analogous rate of the new Agent.

10.13 Agent and Arranger Fees. The Borrower agrees to pay to the Agent and the Arranger, for their respective accounts, the fees agreed to by the Borrower, the Agent and the Arranger pursuant to those certain letter agreements dated June 15, 2001 or as otherwise agreed from time to time.

10.14 Delegation to Affiliates. The Borrower and the Lenders agree that the Agent may delegate any of its duties under this Agreement to any of its Affiliates. Any such Affiliate (and such Affiliate's directors, officers, agents and employees) which performs duties in connection with this Agreement shall be entitled to the same benefits of the indemnification, waiver and other protective provisions to which the Agent is entitled under Articles IX and X.

ARTICLE XI

SETOFF; RATABLE PAYMENTS

11.1 Setoff. In addition to, and without limitation of, any rights of the Lenders under applicable law, if the Borrower becomes insolvent, however evidenced, or any Default occurs, any and all deposits (including all account balances, whether provisional or final and whether or not collected or available) and any other Indebtedness at any time held or owing by any Lender or any Affiliate of any Lender to or for the credit or account of the Borrower may be offset and applied toward the payment of the Obligations owing to such Lender, whether or not the Obligations, or any part thereof, shall then be due; provided, however, that so long as any Obligations are secured by Real Property, no Lender will exercise any right of offset against deposits of the Borrower or any Guarantor maintained with it without prior notice to and the consent of the Agent.

11.2 Ratable Payments. If any Lender, whether by setoff or otherwise, has payment made to it upon its Credit Extensions (other than payments received pursuant to Section 3.1, 3.2, 3.4 or 3.5) in a greater proportion than that received by any other Lender, such Lender agrees, promptly upon demand, to purchase a portion of the Aggregate Outstanding Combined Credit Exposure with interest accrued and unpaid thereon held by the other Lenders so that after such purchase each Lender will hold its Pro Rata Share of the Aggregate Combined Outstanding Credit Exposure. If any Lender, whether in connection with setoff or amounts which might be subject to setoff or otherwise, receives collateral or other protection for its Obligations or such amounts which may be subject to setoff, such Lender agrees, promptly upon demand, to take such action necessary such that all Lenders share in the benefits of such collateral ratably in proportion to their Loans. In case any such payment is disturbed by legal process, or otherwise, appropriate further adjustments shall be made.

ARTICLE XII

BENEFIT OF AGREEMENT; ASSIGNMENTS; PARTICIPATIONS

12.1 Successors and Assigns. The terms and provisions of the Loan Documents shall be binding upon and inure to the benefit of the Borrower and the Lenders and their respective successors and assigns, except that (i) the Borrower shall not have the right to assign its rights or obligations under the Loan Documents and (ii) any assignment by any Lender must be made in compliance with Section 12.3. The parties to this Agreement acknowledge that clause (ii) of this Section 12.1 relates only to absolute assignments and does not prohibit assignments creating security interests, including, without limitation, (x) any pledge or assignment by any Lender of all or any portion of its rights under this Agreement and any Note to a Federal Reserve Bank or (y) in the case of a Lender which is a fund, any pledge or assignment of all or any portion of its rights under this Agreement and any Note to its trustee in support of its obligations to its trustee; provided, however, that no such pledge or assignment creating a security interest shall release the transferor Lender from its obligations hereunder unless and until the parties thereto have complied with the provisions of Section 12.3. The Agent may treat the Person which made any Loan or which holds any Note as the owner thereof for all purposes hereof unless and until such Person complies with Section 12.3; provided, however, that the Agent may in its discretion (but shall not be required to) follow instructions from the Person which made any Loan or which holds any Note to direct payments relating to such Loan or Note to another Person. Any assignee of the rights to any Loan or any Note agrees by acceptance of such assignment to be bound by all the terms and provisions of the Loan Documents. Any request, authority or consent of any Person, who at the time of making such request or giving such authority or consent is the owner of the rights to any Loan (whether or not a Note has been issued in evidence thereof), shall be conclusive and binding on any subsequent holder or assignee of the rights to such Loan.

12.2 Participations.

12.2.1 Permitted Participants; Effect. Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time sell to one or more banks or other entities ("Participants") participating interests in any Outstanding Combined Credit Exposure of such Lender, any Note held by such Lender, any Revolving Credit Commitment of such Lender or any other interest of such Lender under the Loan Documents. In the event of any such sale by a Lender of participating interests to a Participant, such Lender's obligations under the Loan Documents shall remain unchanged, such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, such Lender shall remain the owner of its Outstanding Combined Credit Exposure and the holder of any Note issued to it in evidence thereof for all purposes under the Loan Documents, all amounts payable by the Borrower under this Agreement shall be determined as if such Lender had not sold such participating interests, and the Borrower and the Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under the Loan Documents.

12.2.2 Voting Rights. Each Lender shall retain the sole right to approve, without the consent of any Participant, any amendment, modification or waiver of any provision of the Loan Documents other than any amendment, modification or waiver with respect to any Credit Extension or the Revolving Credit Commitment in which such Participant has an interest which would require consent of all of the Lenders pursuant to the terms of Section 8.2 or of any other Loan Document.

12.2.3 Benefit of Setoff. The Borrower agrees that each Participant shall be deemed to have the right of setoff provided in Section 11.1 in respect of its participating interest in amounts owing under the Loan Documents to the same extent as if the amount of its participating interest were owing directly to it as a Lender under the Loan Documents, *provided* that each Lender shall retain the right of setoff provided in Section 11.1 with respect to the amount of participating interests sold to each Participant. The Lenders agree to share with each Participant, and each Participant, by exercising the right of setoff provided in Section 11.1, agrees to share with each Lender, any amount received pursuant to the exercise of its right of setoff, such amounts to be shared in accordance with Section 11.2 as if each Participant were a Lender.

12.3 Assignments.

12.3.1 Permitted Assignments. Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time assign to one or more banks or other entities ("Purchasers") all or any part of its rights and obligations under the Loan Documents. Such assignment shall be substantially in the form of **Exhibit I** or in such other form as may be agreed to by the parties thereto. The consent of the Borrower, the Agent and the LC Issuer shall be required prior to an assignment becoming effective with respect to a Purchaser which is not a Lender or an Affiliate thereof; *provided*, *however*, that if a Default has occurred and is continuing, the consent of the Borrower shall not be required. Such consent shall not be unreasonably withheld or delayed. Each such assignment with respect to a Purchaser which is not a Lender or an Affiliate thereof shall (unless each of the Borrower, the Agent and the LC Issuer otherwise consents) be in an amount not less than the lesser of (i) $5,000,000 or (ii) the remaining amount of the assigning Lender's Commitment (calculated as at the date of such assignment) or outstanding Loans (if the applicable Commitment has been terminated) and shall be pro rata as to the Revolving Loans, Facility LCs and the Term Loan.

12.3. Effect; Effective Date. Upon (i) delivery to the Agent of an assignment, together with any consents required by Section 12.3.1, and (ii) payment of a $3,500 fee to the Agent for processing such assignment (unless such fee is waived by the Agent), such assignment shall become effective on the effective date specified in such assignment. The assignment shall contain a representation by the Purchaser to the effect that none of the consideration used to make the purchase of the Outstanding Combined Credit Exposure, the Revolving Credit Commitment and Loans under the applicable assignment agreement constitutes "plan assets" as defined under ERISA and that the rights and interests of the Purchaser in and under the Loan Documents will not be "plan assets" under ERISA. On and after the effective date of such assignment, such Purchaser shall for all purposes be a Lender party to this Agreement and any other Loan Document executed by or on behalf of the Lenders and shall have all the rights and obligations of a Lender under the Loan Documents, to the same extent as if it were an original party hereto, and no further consent or action by the Borrower, the Lenders or the Agent shall be required to release the transferor Lender with respect to the percentage of the Aggregate Revolving Credit Commitment and Loans assigned to such Purchaser. Upon the consummation of any assignment to a Purchaser pursuant to this Section 12.3.2, the transferor Lender, the Agent and the Borrower shall, if the transferor Lender or the Purchaser desires that its Loans be evidenced by Notes, make appropriate arrangements so that new Notes or, as appropriate, replacement Notes are issued to such transferor Lender and new Notes or, as appropriate, replacement Notes, are issued to such Purchaser, in each case in principal amounts reflecting their respective Revolving Credit Commitments, as adjusted pursuant to such assignment.

12.4 Dissemination of Information. The Borrower authorizes each Lender to disclose to any Participant or Purchaser or any other Person acquiring an interest in the Loan Documents by operation of law (each a "Transferee") and any prospective Transferee any and all information in such Lender's possession concerning the creditworthiness of the Borrower and its Subsidiaries, including without limitation any information contained in any Reports; provided that each Transferee and prospective Transferee agrees to be bound by Section 9.11 of this Agreement.

12.5 Tax Treatment. If any interest in any Loan Document is transferred to any Transferee which is organized under the laws of any jurisdiction other than the United States or any State thereof, the transferor Lender shall cause such Transferee, concurrently with the effectiveness of such transfer, to comply with the provisions of Section 3.5(iv).

ARTICLE XIII

NOTICES

13.1 Notices. Except as otherwise permitted by Section 2.14 with respect to borrowing notices, all notices, requests and other communications to any party hereunder shall be in writing (including electronic transmission, facsimile transmission or similar writing) and shall be given to such party: (w) in the case of the Borrower or the Agent, at its address or facsimile number set forth on the signature pages hereof, (x) in the case of any Guarantor, in care of the Borrower at its address and facsimile number set forth on the signature pages hereof, (y) in the case of any Lender, at its address or facsimile number set forth in its administrative questionnaire or (z) in the case of any party, at such other address or facsimile number as such party may hereafter specify for the purpose by notice to the Agent and the Borrower in accordance with the provisions of this Section 13.1. Each such notice, request or other communication shall be effective (i) if given by facsimile transmission, when transmitted to the facsimile number specified in this Section and confirmation of receipt is received, (ii) if given by mail, 72 hours after such communication is deposited in the mails with first class postage prepaid, addressed as aforesaid, or (iii) if given by any other means, when delivered (or, in the case of electronic transmission, received) at the address specified in this Section; provided that notices to the Agent under Article II shall not be effective until received.

13.2 Change of Address. The Borrower, the Agent and any Lender may each change the address for service of notice upon it by a notice in writing to the other parties hereto.

ARTICLE XIV

COUNTERPARTS

This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute this Agreement by signing any such counterpart. This Agreement shall be effective when it has been executed by the Borrower, the Agent and the Lenders and each party has notified the Agent by facsimile transmission or telephone that it has taken such action.

ARTICLE XV

CHOICE OF LAW; CONSENT TO JURISDICTION; WAIVER OF JURY TRIAL

15.1 CHOICE OF LAW. THE LOAN DOCUMENTS (OTHER THAN THOSE CONTAINING A CONTRARY EXPRESS CHOICE OF LAW PROVISION) SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS WITHOUT REGARD TO THE CONFLICT OF LAWS PROVISIONS OF THE STATE OF NEW YORK, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

15.2 CONSENT TO JURISDICTION. THE BORROWER HEREBY IRREVOCABLY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY UNITED STATES FEDERAL OR NEW YORK STATE COURT SITTING IN NEW YORK, NEW YORK IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENTS AND THE BORROWER HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT AND IRREVOCABLY WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH A COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. NOTHING HEREIN SHALL LIMIT THE RIGHT OF THE AGENT OR ANY LENDER TO BRING PROCEEDINGS AGAINST THE BORROWER IN THE COURTS OF ANY OTHER JURISDICTION. ANY JUDICIAL PROCEEDING BY THE BORROWER AGAINST THE AGENT OR ANY LENDER OR ANY AFFILIATE OF THE AGENT OR ANY LENDER INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT SHALL BE BROUGHT ONLY IN A COURT IN NEW YORK, NEW YORK.

15.3 WAIVER OF JURY TRIAL. THE BORROWER, THE AGENT AND EACH LENDER HEREBY WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT OR THE RELATIONSHIP ESTABLISHED THEREUNDER.

[Signature Pages Following]

IN WITNESS WHEREOF, the Borrower, the Lenders and the Agent have executed this Agreement as of the date first above written.

FRANKLIN COVEY CO.

By: /s/ J. Scott Nielsen

J. Scott Nielsen, Senior Vice President - Finance

Address: 2200 West Parkway Boulevard
Salt Lake City, UT 84119
Attention: J. Scott Nielsen, Senior Vice President - Finance
Telephone: (801) 817-7102
FAX: (801) 817-4291

BANK ONE, NA, as Agent, LC Issuer and a Lender

By: /s/ Stephen M. Flynn

Stephen M. Flynn, First Vice President

Address: 777 South Figueroa Street,4th Floor, IL1-4001
Los Angeles, CA 90017
Attention: Stephen M. Flynn, First Vice President
Telephone: (213) 683-4932
FAX: (213) 683-4999

ZIONS FIRST NATIONAL BANK, as Swing Line Lender and a Lender

By: /s/ David Mathis

David Mathis, Vice President

Address: 10 East South Temple, Suite 200
Salt Lake City, Utah 84133
Attention: David Mathis, Vice President
Telephone: (801)524-4822
FAX: (801)524-2136

LIST OF ANNEXES, EXHIBITS AND SCHEDULES

ANNEXES:

EXHIBITS:

SCHEDULES:

ANNEX 1: COMMITMENT SCHEDULE
(as of July 6, 2001)

Aggregate Revolving Credit Commitment: $45,000,000
Swing Line Sublimit: $10,000,000

Lender	Revolving Credit Commitment	Pro Rata Share
Bank One, NA	$22,500,000	50%
Zions First National Bank	$22,500,000	50%

ANNEX 2: LOCATIONS OF ELIGIBLE INVENTORY

Alabama
Arizona
California
Colorado
Connecticut
Florida
Georgia
Hawaii
Idaho
Illinois
Indiana
Iowa
Kansas
Kentucky
Louisiana
Maryland
Massachusetts
Michigan
Minnesota
Missouri
Nebraska
Nevada
New Jersey
New Mexico
New York
North Carolina
Ohio
Oklahoma
Oregon
Pennsylvania
South Carolina
Tennessee
Texas
Utah
Virginia
Washington
Washington, D.C.
Wisconsin

ANNEX 3: EXISTING LETTERS OF CREDIT

LC Number	Beneficiary	Expiration Date	Face Amount
6683	Knoxville Utilities Board	10/7/2001	$1,700.00
7514	Airlines Reporting Corporation	3/27/2002	$20,000.00
8950	Royal Indemnity Company	1/1/2002	$264,000.00
SB-800146	Banca Serafin, S.A.	5/25/2002	$50,000.00
TOTAL EXISTING LETTERS OF CREDIT:			$335,700.00

ANNEX 4: INITIAL GUARANTORS

GUARANTOR NAME	JURISDICTION OF ORGANIZATION	BORROWER'S PERCENTAGE OWNERSHIP
Franklin Covey Argentina, Inc.	Utah	100%
Franklin Covey Asia, Inc.	Utah	100%
Franklin Covey Brazil, Inc.	Utah	100%
Franklin Covey Catalog Sales, Inc.	Utah	100%
Franklin Covey Client Sales, Inc.	Utah	100%
Franklin Covey International, Inc.	Utah	100%
Franklin Covey Marketing, Ltd.	Utah	0%
Franklin Covey Mexico, Inc.	Utah	100%
Franklin Covey Printing, Inc.	Utah	100%

Franklin Covey Product Sales, Inc.	Utah	100%	
Franklin Covey Services, LLC	Utah	100%	
Franklin Covey Travel, Inc.	Utah	100%	
Franklin Development Corporation	Utah	100%	
McCulley-Cuppan, LLC	Utah	100%	

ANNEX 5: PRICING SCHEDULE

APPLICABLE MARGIN	LEVEL I STATUS	LEVEL II STATUS	LEVEL III STATUS
Eurodollar Rate	2.125%	2.50%	2.75%
Floating Rate	1.25%	1.75%	2.00%

APPLICABLE FEE RATE	LEVEL I STATUS	LEVEL II STATUS	LEVEL III STATUS
Facility Fee	0.375%	0.50%	0.50%

For the purposes of this Schedule, the following terms have the following meanings, subject to the penultimate paragraph of this Schedule:

"Financials" means the annual or quarterly financial statements of the Borrower delivered pursuant to Section 6.1(i) or (ii).

"Level I Status" exists at any date if, as of the last day of the fiscal quarter of the Borrower referred to in the most recent Financials, the Leverage Ratio is less than .1.00 to 1.00.

"Level II Status" exists at any date if, as of the last day of the fiscal quarter of the Borrower referred to in the most recent Financials, (i) the Borrower has not qualified for Level I Status and (ii) the Leverage Ratio is less than .2.00 to 1.00.

"Level III Status" exists at any date if the Borrower has not qualified for Level I Status or Level II Status.

"Status" means either Level I Status, Level II Status or Level III Status.

The Applicable Margin and Applicable Fee Rate shall be determined in accordance with the foregoing table based on the Borrower's Status as reflected in the then most recent Financials. Adjustments, if any, to the Applicable Margin or Applicable Fee Rate shall be effective five Business Days after the Agent has received the applicable Financials. If the Borrower fails to deliver the Financials to the Agent at the time required pursuant to Section 6.1, then the Applicable Margin and Applicable Fee Rate shall be the highest Applicable Margin and Applicable Fee Rate set forth in the foregoing table until five days after such Financials are so delivered.

NOTE: From the Effective Date until five days following delivery of the Borrower's financial statements for fiscal year end 2002, the Status which shall be deemed to apply shall be no lower than Level II.

ANNEX 6: EXISTING MORTGAGE FACILITIES

Those five loans secured by deeds of trust on certain parcels of the Real Property and evidenced by the Promissory Notes described below:

1. Promissory Note dated August 1, 1989 in the amount of $563,550 issued by SBWWR, Inc. and The Franklin International Institute, Inc. and payable to the order of Gary P. Cox, trustee, Mountain States Bindery Profit Sharing Plan.

2. Promissory Note dated September 21, 1989 in the amount of $275,000 issued by SBWWR, Inc. and payable to the order of Zions First National Bank.

3. Promissory Note dated September 27, 1989 in the amount of $840,000 issued by SBWWR, Inc. and payable to the order of United of Omaha Life Insurance Company.

4. Promissory Note dated August 16, 1991 in the amount of $2,600,000 issued by Franklin Development Company and payable to the order of United of Omaha Life Insurance Company.

5. Promissory Note (Construction Loan) dated as of September 17, 1991 in the amount of $2,925,000 issued by Franklin Development Company payable to the order of Zions First National Bank.

EXHIBIT A: FORM OF

BORROWER SECURITY AGREEMENT

THIS BORROWER SECURITY AGREEMENT (the "Borrower Security Agreement") is made and dated as of 10th day of July, 2001, by and among FRANKLIN COVEY CO., a Utah corporation ("Borrower"), and BANK ONE, NA ("Bank One"), as agent (in such capacity, the "Agent") for itself and the other Credit Providers (as that term and capitalized terms not otherwise defined herein are defined in) that certain Credit Agreement dated of even date herewith by and among Borrower, the Lenders from time to time party thereto and the Agent, Bank One, as the LC Issuer, and Zions First National Bank, as the Swing Line Lender (as amended, extended and replaced from time to time, the "Credit Agreement")).

RECITALS

A. Pursuant to the Credit Agreement, the Lenders have agreed to extend credit to Borrower from time to time.

B. As a condition precedent to the Lenders' obligation to extend credit under the Credit Agreement and for certain of the Lenders to enter into Rate Management Transactions with Borrower and as collateral security for the payment and performance by Borrower of the Obligations, Borrower is required to execute and deliver this Borrower Security Agreement, and to grant to the Agent and to create a security interest for the benefit of the Collateral Providers in certain property of Borrower, as hereinafter provided.

NOW, THEREFORE, in consideration of the above Recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

AGREEMENT

1. Appointment of Agent. Pursuant to the Credit Agreement, each of the Credit Providers has appointed the Agent as its agent under the Loan Documents, including, without limitation, under this Borrower Security Agreement, and the Agent has accepted such appointment. The Agent agrees to act as secured party, agent, bailee and custodian for the exclusive benefit of the Credit Providers with respect to the Personal Property Collateral (as defined in Paragraph 3 below). The

Agent agrees that the Agent will act with respect to the Personal Property Collateral for the exclusive benefit of the Credit Providers and is not, and shall not at any time in the future be, subject with respect to the Personal Property Collateral, in any manner or to any extent, to the direction or control of Borrower except as expressly permitted hereunder, under the other Loan Documents or as required by law.

2. Grant of Security Interest. Borrower hereby pledges, assigns and grants to the Agent, for the pro rata, pari passu benefit of the Credit Providers, and to each of the Credit Providers individually, a security interest in the Personal Property Collateral to secure payment and performance of the Obligations.

3. Personal Property Collateral. The Personal Property Collateral shall consist of all right, title and interest of Borrower in and to the following:

(a) All now existing and hereafter arising accounts, chattel paper, documents, instruments, letter-of-credit rights, commercial tort claims and general intangibles (as those terms are defined in the New York Uniform Commercial Code as in effect from time to time) of Borrower, whether or not arising out of or in connection with the sale or lease of goods or the rendering of services, and all rights of Borrower now and hereafter arising in and to all security agreements, guaranties, leases and other writings securing or otherwise relating to any such accounts, chattel paper, documents, instruments, letter-of-credit rights, commercial tort claims and general intangibles;

(b) All inventory of Borrower, now owned and hereafter acquired, wherever located, including, without limitation, all merchandise, goods and other personal property which are held for sale or leased by Borrower, all raw materials, work in process, materials used or consumed in Borrower's business and finished goods, all goods in which Borrower has an interest in mass or a joint or other interest or gifts of any kind (including goods in which Borrower has an interest or right as consignee), and all goods which are returned to or repossessed by Borrower, together with all additions and accessions thereto and replacements therefor and products thereof and documents therefor;

(c) All equipment of Borrower, now owned and hereafter acquired, wherever located, and all parts thereof and all accessions, additions, attachments, improvements, substitutions and replacements thereto and therefor, including, without limitation, all machinery, tools, dies, blueprints, catalogues, computer hardware and software, furniture, furnishings and fixtures;

(d) All now existing and hereafter acquired Computer Hardware and Software Collateral, Copyright Collateral, Patent Collateral, Trademark Collateral and Trade Secrets Collateral (as those terms are defined in Paragraph 17 below) (collectively, the "Intellectual Property Collateral");

(e) All shares of capital stock, now owned or hereafter acquired by Borrower, of each now existing and hereafter formed or acquired Wholly-Owned Domestic Subsidiary of Borrower and sixty six percent (66%) of the shares of capital stock of each now existing and hereafter formed or acquired Wholly-Owned Foreign Subsidiary of Borrower, together with all new, substituted and additional securities at any time issued with respect thereto (collectively and severally, the "Pledged Shares"), with the Pledged Shares existing on the date of this Borrower Security Agreement being described on Schedule 1 attached hereto;

(f) All now existing and hereafter arising rights of the holder of Pledged Shares with respect thereto, including, without limitation, all voting rights and all rights to cash and noncash dividends and other distributions on account thereof;

(g) All deposit accounts, now existing and hereafter arising or established, maintained in Borrower's name with any financial institution, including, without limitation, those accounts described more particularly on Schedule 2 attached hereto, and any and all funds at any time held therein and all certificates, instruments and other writings, if any, from time to time representing, evidencing or deposited into such accounts, and all interest, dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of the foregoing;

(h) All now existing and hereafter acquired books, records, writings, data bases, information and other property relating to, used or useful in connection with, embodying, incorporating or referring to, any of the foregoing Personal Property Collateral;

(i) All other property of Borrower now or hereafter in the possession, custody or control of the Agent, and all property of Borrower in which the Agent now has or hereafter acquires a security interest for the benefit of the Credit Providers;

(j) All now existing and hereafter acquired cash and cash equivalents held by Borrower not otherwise included in the foregoing Personal Property Collateral; and

(k) All products and proceeds of the foregoing Personal Property Collateral. For purposes of this Borrower Security Agreement, the term "proceeds" includes whatever is receivable or received when Personal Property Collateral or proceeds thereof is sold, collected, exchanged or otherwise disposed of, whether such disposition is voluntary or involuntary, and includes, without limitation, all rights to payment, including return premiums, with respect to any insurance relating thereto.

4. Obligations. The obligations secured by this Borrower Security Agreement shall consist of all Obligations, including in all cases, whether heretofore, now, or hereafter made, incurred or created, whether voluntary or involuntary and however arising, absolute or contingent, liquidated or unliquidated, determined or undetermined, whether or not such Obligations are from time to time reduced, or extinguished and thereafter increased or incurred, whether Borrower may be liable individually or jointly with others, whether or not recovery upon such Obligations may be or hereafter become barred by any statute of limitations, and whether or not such Obligations may be or hereafter become otherwise unenforceable.

5. Representations and Warranties. In addition to all representations and warranties of Borrower set forth in the other Loan Documents, which are incorporated herein by this reference, Borrower hereby represents and warrants that:

(a) Borrower is the sole owner of and has good and marketable title to the Personal Property Collateral (or, in the case of after-acquired Personal Property Collateral, at the time Borrower acquires rights in the Personal Property Collateral).

(b) Except as permitted pursuant to the Credit Agreement, no Person has (or, in the case of after-acquired Personal Property Collateral, at the time Borrower acquires rights therein, will have) any right, title, claim or interest (by way of security interest or other Lien or charge) in, against or to the Personal Property Collateral.

(c) All information heretofore, herein or hereafter supplied to the Agent or any Credit Provider by or on behalf of Borrower with respect to the Personal Property Collateral is accurate and complete in all material respects.

(d) Borrower has delivered to the Agent all instruments, chattel paper and other items of Personal Property Collateral requested to be delivered by the Agent in which a security interest is or may be perfected by possession, together with such additional writings, including, without limitation, stock transfer powers and assignments, with respect thereto as the Agent shall request.

6. Covenants and Agreements of Borrower. In addition to all covenants and agreements of Borrower set forth in the other Loan Documents, which are incorporated herein by this reference, Borrower hereby agrees, at no cost or expense to the Agent or any of the Credit Providers:

(a) To do all commercially reasonable acts (other than acts which are required to be done by the Agent) that may be necessary to maintain, preserve and protect the Personal Property Collateral and, to the extent such actions are required to be taken by Borrower, the first priority, perfected security interest of the Agent for the benefit of the Credit Providers therein.

(b) Not to use or permit any Personal Property Collateral to be used unlawfully or in violation of any provision of this Borrower Security Agreement, any other agreement with the Agent and/or the Credit Providers related hereto, or any law, rule, regulation, order, writ, judgment, injunction, decree or award binding on Borrower or affecting any of the Personal Property Collateral or any contractual obligation affecting any of the Personal Property Collateral.

(c) To pay promptly when due all taxes, assessments, charges, encumbrances and Liens now or hereafter imposed upon or affecting any Personal Property Collateral.

(d) To appear in and defend any action or proceeding which may affect its title to or the Agent's interest on behalf of the Credit Providers in the Personal Property Collateral.

(e) Not to surrender or lose possession of (other than to the Agent), sell, encumber, lease, rent, or otherwise dispose of or transfer any Personal Property Collateral or right or interest therein except as expressly provided herein and in the other Loan Documents, and to keep the Personal Property Collateral free of all levies and security interests or other Liens or charges except those permitted under the Credit Agreement or otherwise approved in writing by the Agent; provided, however, that, unless a Default shall have occurred and be continuing, Borrower may, in the ordinary course of business, sell or lease any Personal Property Collateral consisting of inventory.

(f) To account fully for and promptly deliver to the Agent, in the form received, all documents, chattel paper, instruments and agreements constituting Personal Property Collateral hereunder, including, without limitation, all stock certificates evidencing Pledged Shares, and all following the occurrence of a Default proceeds of the Personal Property Collateral received, all endorsed to the Agent or in blank, as requested by the Agent, and accompanied by such stock powers as may be required by the Agent and until so delivered all such documents, instruments, agreements and proceeds shall be held by Borrower in trust for the Agent for the benefit of the Credit Providers, separate from all other property of Borrower.

(g) To keep separate, accurate and complete records of the Personal Property Collateral and to provide the Agent and each of the Credit Providers with such records and such other reports and information relating to the Personal Property Collateral as the Agent or any Credit Provider may reasonably request from time to time.

(h) To give the Agent thirty (30) days prior written notice of any change in Borrower's chief place of business or legal name or trade name(s) or style(s) referred to in Paragraph 12 below.

(i) To keep the records concerning the Personal Property Collateral at the location(s) referred to in Paragraph 12 below and not to remove such records from such location(s) without the prior written consent of the Agent.

(j) To keep the Personal Property Collateral at the location(s) referred to in Paragraph 11 below and not to remove the Personal Property Collateral from such location(s) without the prior written consent of the Agent.

(k) To keep the Personal Property Collateral in good condition and repair and not to cause or permit any waste or unusual or unreasonable depreciation of the Personal Property Collateral.

7. Authorized Action by Secured Party. Borrower hereby agrees that following the occurrence and during the continuance of a Default, without presentment, notice or demand, and without affecting or impairing in any way the rights of the Agent with respect to the Personal Property Collateral, the obligations of Borrower hereunder or the Obligations, the Agent may, but shall not be obligated to and shall incur no liability to Borrower, any Credit Provider or any third party for failure to, take any action which Borrower is obligated by this Borrower Security Agreement to do and to exercise such rights and powers as Borrower might exercise with respect to the Personal Property Collateral, and Borrower hereby irrevocably appoints the Agent as its attorney-in-fact to exercise such rights and powers, including without limitation, to:

(a) Collect by legal proceedings or otherwise and endorse, receive and receipt for all dividends, interest, payments, proceeds and other sums and property now or hereafter payable on or on account of the Personal Property Collateral.

(b) Enter into any extension, reorganization, deposit, merger, consolidation or other agreement pertaining to, or deposit, surrender, accept, hold or apply other property in exchange for the Personal Property Collateral.

(c) Insure, process and preserve the Personal Property Collateral.

(d) Transfer the Personal Property Collateral to its own or its nominee's name.

(e) Make any compromise or settlement, and take any action it deems advisable, with respect to the Personal Property Collateral.

(f) Subject to the provisions of Paragraph 8 below, notify any obligor on any Personal Property Collateral to make payment directly to the Agent.

Borrower hereby grants to the Agent for the benefit of the Credit Providers an exclusive, irrevocable power of attorney, with full power and authority in the place and stead of Borrower to take all such action permitted under this Paragraph 7; provided, however, that the Agent agrees that it shall not exercise such power of attorney unless there shall have occurred and is continuing a Default. Borrower agrees to reimburse the Agent upon demand for any costs and expenses, including, without limitation, attorneys' fees, the Agent may incur while acting as Borrower's attorney-in-fact hereunder, all of which costs and expenses are included in the Obligations secured hereby. It is further agreed and understood between the

parties hereto that such care as the Agent gives to the safekeeping of its own property of like kind shall constitute reasonable care of the Personal Property Collateral when in the Agent's possession; provided, however, that the Agent shall not be required to make any presentment, demand or protest, or give any notice and need not take any action to preserve any rights against any prior party or any other person in connection with the Obligations or with respect to the Personal Property Collateral.

8. Collection of Personal Property Collateral Payments.

(a) Borrower shall, at its sole cost and expense, endeavor to obtain payment, when due and payable, of all sums due or to become due with respect to any Personal Property Collateral ("Personal Property Collateral Payments" or a "Personal Property Collateral Payment"), including, without limitation, the taking of such action with respect thereto as the Agent or any Credit Provider may reasonably request, or, in the absence of such request, as Borrower may reasonably deem advisable; provided, however, that Borrower shall not, without the prior written consent of the Agent and the Credit Providers, grant or agree to any rebate, refund, compromise or extension with respect to any Personal Property Collateral Payment or accept any prepayment on account thereof other than in the ordinary course of Borrower's business. Upon the request of the Agent at the direction of all the Credit Providers following the occurrence of a Default, Borrower will notify and direct any party who is or might become obligated to make any Personal Property Collateral Payment, to make payment thereof to such accounts as the Agent may direct in writing and to execute all instruments and take all action required by the Agent to ensure the rights of the Agent for the benefit of the Credit Providers in any Personal Property Collateral subject to the Federal Assignment of Claims Act of 1940, as amended.

(b) Upon the request of the Agent following the occurrence of a Default, Borrower will, forthwith upon receipt, transmit and deliver to the Agent, in the form received, all cash, checks, drafts and other instruments for the payment of money (properly endorsed where required so that such items may be collected by the Agent) which may be received by Borrower at any time as payment on account of any Personal Property Collateral Payment and if such request shall be made, until delivery to the Agent, such items will be held in trust for the Agent and the Credit Providers and will not be commingled by Borrower with any of its other funds or property. Thereafter, the Agent is hereby authorized and empowered to endorse the name of Borrower on any check, draft or other instrument for the payment of money received by the Agent on account of any Personal Property Collateral Payment if the Agent believes such endorsement is necessary or desirable for purposes of collection.

(c) Borrower will indemnify and save harmless the Agent from and against all reasonable liabilities and expenses on account of any adverse claim asserted against the Agent relating to any moneys received by the Agent on account of any Personal Property Collateral Payment and such obligation of Borrower shall continue in effect after and notwithstanding the discharge of the Obligations and the release of the security interest granted in Paragraph 2 above.

9. Additional Covenants Regarding Intellectual Property Collateral.

(a) Borrower shall not, unless it shall either reasonably and in good faith determine that such Personal Property Collateral is of negligible economic value to Borrower or that there is a valid purpose to do otherwise:

(1) Permit any Patent Collateral to lapse or become abandoned or dedicated to the public or otherwise be unenforceable;

(2) (i) Fail to continue to use any of the Trademark Collateral in order to maintain all of the Trademark Collateral in full force free from any claim of abandonment for non-use, (ii) fail to maintain as in the past the quality of products and services offered under all of the Trademark Collateral, (iii) fail to employ all of the Trademark Collateral registered with any Federal or state or foreign authority with an appropriate notice of such registration, (iv) adopt or use any other Trademark which is confusingly similar or a colorable imitation of any of the Trademark Collateral, (v) use any of the Trademark Collateral registered with any Federal or state or foreign authority except for the uses for which registration or application for registration of all of the Trademark Collateral has been made, or (vi) do or permit any act or knowingly omit to do any act whereby any of the Trademark Collateral may lapse or become invalid or unenforceable;

(3) Do or permit any act or knowingly omit to do any act whereby any of the Copyright Collateral or any of the Trade Secrets Collateral may lapse or become invalid or unenforceable or placed in the public domain except upon expiration of the end of an unrenewable term of a registration thereof.

(b) Borrower shall notify the Agent immediately if it knows, or has reason to know, that any application or registration relating to any material item of the Intellectual Property Collateral may become abandoned or dedicated to the public or placed in the public domain or invalid or unenforceable, or of any adverse determination or development (including the institution of, or any such determination or development in, any proceeding in the United States Patent and Trademark Office, the United States Copyright Office or any foreign counterpart thereof or any court) regarding Borrower's ownership of any of the Intellectual Property Collateral, its right to register the same or to keep and maintain and enforce the same.

(c) In no event shall Borrower or any of its agents, employees, designees or licensees file an application for the registration of any Intellectual Property Collateral with the United States Patent and Trademark Office, the United States Copyright Office or any similar office or agency in any other country or any political subdivision thereof, unless it promptly informs the Agent, and upon request of the Agent, executes and delivers any and all agreements, instruments, documents and papers as the Agent may reasonably request to evidence the Agent's security interest in such Intellectual Property Collateral and the goodwill and general intangibles of Borrower relating thereto or represented thereby.

(d) Borrower shall, contemporaneously herewith, execute and deliver to the Agent such supplemental agreements for filing in the Patent and Trademark Office as the Agent may require and shall execute and deliver to the Agent any other document required to acknowledge or register or perfect the Agent's interest in any part of the Intellectual Property Collateral.

10. Remedies. Upon the occurrence of a Default, the Agent may, without notice to or demand on Borrower and in addition to all rights and remedies available to the Agent and the Credit Providers with respect to the Obligations, at law, in equity or otherwise, do any one or more of the following:

(a) Foreclose or otherwise enforce the Agent's security interest in any manner permitted by law or provided for in this Borrower Security Agreement.

(b) Sell, lease or otherwise dispose of any Personal Property Collateral at one or more public or private sales at the Agent's place of business or any other place or places, including, without limitation, any broker's board or securities exchange, whether or not such Personal Property Collateral is present at the place of sale, for cash or credit or future delivery, on such terms and in such manner as the Agent may determine.

(c) Recover from Borrower all costs and expenses, including, without limitation, reasonable attorneys' fees (including the allocated cost of internal counsel), incurred or paid by the Agent or any Credit Provider in exercising any right, power or remedy provided by this Borrower Security Agreement.

(d) Require Borrower to assemble the Personal Property Collateral and make it available to the Agent at a place to be designated by the Agent.

(e) Enter onto property where any Personal Property Collateral is located and take possession thereof with or without judicial process.

(f) Prior to the disposition of the Personal Property Collateral, store, process, repair or recondition it or otherwise prepare it for disposition in any manner and to the extent the Agent deems appropriate and in connection with such preparation and disposition, without charge, use any trademark, tradename, copyright, patent or technical process used by Borrower.

Borrower shall be given five (5) Business Days' prior notice of the time and place of any public sale or of the time after which any private sale or other intended disposition of Personal Property Collateral is to be made, which notice Borrower hereby agrees shall be deemed reasonable notice thereof. Upon any sale or other disposition pursuant to this Borrower Security Agreement, the Agent shall have the right to deliver, assign and transfer to the purchaser thereof the Personal Property Collateral or portion thereof so sold or disposed of. Each purchaser at any such sale or other disposition (including the Agent) shall hold the Personal Property Collateral free from any claim or right of whatever kind, including any equity or right of redemption of Borrower and Borrower specifically waives (to the extent permitted by law) all rights of redemption, stay or appraisal which it has or may have under any rule of law or statute now existing or hereafter adopted.

11. Administration of the Pledged Shares. In addition to any provisions of this Borrower Security Agreement which govern the administration of the Personal Property Collateral generally, the following provisions shall govern the administration of the Pledged Shares:

(a) Until there shall have occurred and be continuing a Default, Borrower shall be entitled to vote or consent with respect to the Pledged Shares in any manner not inconsistent with this Borrower Security Agreement or any document or instrument delivered or to be delivered pursuant to or in connection with any thereof and to receive all dividends paid with respect to the Pledged Shares. If there shall have occurred and be continuing a Default and the Agent shall have notified Borrower that the Agent desires to exercise its proxy rights with respect to all or a portion of the Pledged Shares, Borrower hereby grants to the Agent an irrevocable proxy for the Pledged Shares pursuant to which proxy the Agent shall be entitled to vote or consent, in its discretion, and in such event Borrower agrees to deliver to the Agent such further evidence of the grant of such proxy as the Agent may request.

(b) In the event that at any time or from time to time after the date hereof, Borrower, as record and beneficial owner of the Pledged Shares, shall receive or shall become entitled to receive, any dividend or any other distribution whether in securities or property by way of stock split, spin-off, split-up or reclassification, combination of shares or the like, or in case of any reorganization, consolidation or merger, and Borrower, as record and beneficial owner of the Pledged Shares, shall thereby be entitled to receive securities or property in respect of such Pledged Shares, then and in each such case, Borrower shall deliver to the Agent and the Agent shall be entitled to receive and retain all such securities or property as part of the Pledged Shares as security for the payment and performance of the Obligations; provided, however, that until there shall have occurred a Default, Borrower shall be entitled to retain any cash dividends paid on account of the Pledged Shares.

(c) Upon the occurrence of a Default, the Agent is authorized to sell the Pledged Shares and, at any such sale of any of the Pledged Shares, if it deems it advisable to do so, to restrict the prospective bidders or purchasers to persons or entities who (1) will represent and agree that they are purchasing for their own account, for investment, and not with a view to the distribution or sale of any of the Pledged Shares; and (2) satisfy the offeree and purchaser requirements for a valid private placement transaction under Section 4(2) of the Securities Act of 1933, as amended (the "Act"), and under Securities and Exchange Commission Release Nos. 33-6383; 34-18524; 35-22407; 39-700; IC-12264; AS-306, or under any similar statute, rule or regulation. Borrower agrees that disposition of the Pledged Shares pursuant to any private sale made as provided above may be at prices and on other terms less favorable than if the Pledged Shares were sold at public sale, and that the Agent has no obligation to delay the sale of any Pledged Shares for public sale under the Act. Borrower agrees that a private sale or sales made under the foregoing circumstances shall be deemed to have been made in a commercially reasonable manner. In the event that the Agent elects to sell the Pledged Shares, or part of them, and there is a public market for the Pledged Shares, in a public sale Borrower shall use its best efforts to register and qualify the Pledged Shares, or applicable part thereof, under the Act and all state Blue Sky or securities laws required by the proposed terms of sale and all expenses thereof shall be payable by Borrower, including, but not limited to, all costs of (i) registration or qualification of, under the Act or any state Blue Sky or securities laws or pursuant to any applicable rule or regulation issued pursuant thereto, any Pledged Shares, and (ii) sale of such Pledged Shares, including, but not limited to, brokers' or underwriters' commissions, fees or discounts, accounting and legal fees, costs of printing and other expenses of transfer and sale.

(d) If any consent, approval or authorization of any state, municipal or other governmental department, agency or authority should be necessary to effectuate any sale or other disposition of the Pledged Shares, or any part thereof, Borrower will execute such applications and other instruments as may be required in connection with securing any such consent, approval or authorization, and will otherwise use its best efforts to secure the same.

(e) Nothing contained in this Paragraph 11 shall be deemed to limit the other obligations of Borrower contained in this Borrower Security Agreement or the other Loan Documents and the rights of the Agent and the Credit Providers hereunder or thereunder.

12. Place of Business; Personal Property Collateral Location; Records Location. Borrower represents that its chief place of business is as set forth on Schedule 3 attached hereto; that the only trade name(s) or style(s) used by Borrower are set forth on said Schedule 3; and that, except as otherwise disclosed to the Agent in writing prior to the date hereof, the Personal Property Collateral and Borrower's records concerning the Personal Property Collateral are located at its chief place of business.

13. Waiver of Hearing. Borrower expressly waives to the extent permitted under applicable law any constitutional or other right to a judicial hearing prior to the time the Agent takes possession or disposes of the Personal Property Collateral upon the occurrence of a Default.

14. Cumulative Rights. The rights, powers and remedies of the Agent and any of the Credit Providers under this Borrower Security Agreement shall be in addition to all rights, powers and remedies given to the Agent and any of the Credit Providers by virtue of any statute or rule of law, the Loan Documents or any other agreement, all of which rights, powers and remedies shall be cumulative and may be exercised successively or concurrently without impairing the Agent's and any of the Credit Providers' security interest in the Personal Property Collateral.

15. Waiver. Any forbearance or failure or delay by the Agent in exercising any right, power or remedy shall not preclude the further exercise thereof, and every right, power or remedy of the Agent or any of the Credit Providers shall continue in full force and effect until such right, power or remedy is specifically waived in a writing executed by the Agent or such other Secured Party, as applicable. Borrower waives any right to require any Secured Party to proceed against any person or to exhaust any Personal Property Collateral or to pursue any remedy in such Secured Party's power.

16. Setoff. Borrower agrees that, as between the Borrower, on the one hand, and the Agent and the Credit Providers, on the other hand, the Agent and each Credit Provider may exercise its rights of setoff with respect to the Obligations in the same manner as if the Obligations were unsecured.

17. Intellectual Property Collateral. For purposes of this Borrower Security Agreement, the following capitalized terms shall have the following meanings:

"Computer Hardware and Software Collateral" means all of Borrower's right, title and interest in all now existing and hereafter created or acquired:

(a) Computer and other electronic data processing hardware, integrated computer systems, central processing units, memory units, display terminals, printers, features, computer elements, card readers, tape drives, hard and soft disk drives, cables, electrical supply hardware, generators, power equalizers, accessories and all peripheral devices and other related computer hardware;

(b) Software programs (including both source code, object code and all related applications and data files), whether owned, licensed or leased, designed for use on the computers and electronic data processing hardware described in subparagraph (a) above;

(c) All firmware associated therewith;

(d) All documentation (including flow charts, logic diagrams, manuals, guides and specifications) with respect to such hardware, software and firmware described in subparagraph (a) through (c) above; and

(e) All rights with respect to all of the foregoing, including, without limitation, any and all of Borrower's copyrights, licenses, options, warranties, service contracts, program services, test rights, renewal rights and indemnifications and any substitutions, replacements, additions or model conversions of any of the foregoing.

"Copyright Collateral" means copyrights and all semi-conductor chip product mask works of Borrower, whether statutory or common law, registered or unregistered, now or hereafter in force throughout the world including, without limitation, all of Borrower's right, title and interest in and to all copyrights and mask works registered in the United States Copyright Office or anywhere else in the world, and all applications for registration thereof, whether pending or in preparation, all copyright and mask work licenses, the right of Borrower to sue for past, present and future infringements of any thereof, all rights of Borrower corresponding thereto throughout the world, all extensions and renewals of any thereof and all proceeds of the foregoing, including, without limitation, licenses, royalties, income, payments, claims damages and proceeds of suit.

"Patent Collateral" means:

(a) All of Borrower's letters patent and applications for letters patent throughout the world, including all of Borrower's patent applications in preparation for filing anywhere in the world and with the United States Patent and Trademark Office;

(b) All of Borrower's patent licenses;

(c) All reissues, divisions, continuations, continuations-in-part, extensions, renewals and reexaminations of any of the items described in clauses (a) and (b); and

(d) All proceeds of, and rights associated with, the foregoing (including license royalties and proceeds of infringements suits), the right of Borrower to sue third parties for past, present or future infringements of any patent or patent application of Borrower, and for breach of enforcement of any patent license, and all rights corresponding thereto throughout the world.

"Trademark Collateral" means:

(a) All of Borrower's trademarks, trade names, corporate names, business names, fictitious business names, trade styles, service marks, certification marks, collective marks, logos, other source of business identifiers, prints and labels on which any of the foregoing have appeared or appear, designs and general intangibles of a like nature (all of the foregoing items in this clause (a) being collectively called a "Trademark"), now existing anywhere in the world or hereafter adopted or acquired, whether currently in use or not, all registrations and recordings thereof and all applications in connection therewith, whether pending or in preparation for filing, including registrations, recordings and applications in the United States Patent and Trademark Office or in any office or agency of the United States of America or any State thereof or any foreign country;

(b) All of Borrower's Trademark licenses;

(c) All reissues, extensions or renewals of any of the items described in clauses (a) and (b);

(d) All of the goodwill of the business of Borrower connected with the use of, and symbolized by the items described in, clauses (a) and (b), and

(e) All proceeds of, and rights of Borrower associated with, the foregoing, including any claim by Borrower against third parties for past, present or future infringement or dilution of any Trademark, Trademark registration or Trademark license, or for any injury to the goodwill associated with the use of any such Trademark or for breach or enforcement of any Trademark license.

"Trade Secrets Collateral" means common law and statutory trade secrets and all other confidential or proprietary or useful information and all know-how obtained by or used in or contemplated at any time for use in the business of Borrower (all of the foregoing being collectively called a "Trade Secret"), whether or not such Trade Secret has been reduced to a writing or other tangible form including all documents and things embodying, incorporating or referring in any way to such Trade Secret, all Trade Secret licenses, including the right to sue for and to enjoin and to collect damages for the actual or threatened misappropriation of any Trade Secret and for the breach or enforcement of any such Trade Secret license.

[Signature page following]

EXECUTED as of the day and year first above written.

FRANKLIN COVEY CO.

By: J. SCOTT NIELSEN

Name: J. SCOTT NIELSEN

Title: Senior Vice President - Finance

BANK ONE, NA, as Agent

By: STEPHEN M. FLYNN

Name: STEPHEN M. FLYNN

Title: First Vice President

LIST OF SCHEDULES AND EXHIBITS

Schedule 1	Initial Pledged Shares
Schedule 2	Existing Deposit Accounts
Schedule 3	Locations of Equipment, Inventory, Places of Business, Chief Executive Office, and Books and Records and Tradenames

Initial Pledged Shares
(as of the Effective Date)

[Borrower to provide]

Schedule 2
to Borrower Security Agreement

Deposit Accounts
(as of the Effective Date)

Institution where Account is Held	Account Number

[Borrower to provide]

Schedule 3
to Borrower Security Agreement

Locations of Equipment, Inventory, Places of Business,
Chief Executive Office and Books and Records and Tradenames

[Borrower to provide]

EXHIBIT B: FORM OF

BORROWING BASE CERTIFICATE

Franklin Covey Co.

Borrowing Base Certificate

Dated as of _____

To: BANK ONE, NA ("Bank One"),as Agent, and the Lenders Party to the Credit Agreement Described Below

Reference is hereby made to that certain Credit Agreement dated as of July 10, 2001 by and among FRANKLIN COVEY CO. (the "Borrower"), the Lenders from time to time party thereto, Bank One, as the Agent for the Lenders, Bank One, as the LC Issuer, and Zions First National Bank, as the Swing Line Lender (as amended, extended and replaced from time to time, the "Credit Agreement"). Capitalized terms used herein and not otherwise defined shall have the meanings given such terms in the Credit Agreement.

The undersigned, being the [chief financial officer] of the Borrower, hereby certifies that:

1. The attached Borrowing Base Certificate is complete, true and correct and fairly presents the data necessary for, and demonstrates, the computation of the Collateral Value of the Borrowing Base as of _____ (the "Calculation Date").

2. Since the Calculation Date there has not occurred any event or circumstance which would make the computation of the Collateral Value of the Borrowing Base as set forth therein inaccurate or incomplete in any material event if this Borrowing Base Certificate were prepared as of the date hereof.

_____

_____, the _____
of FRANKLIN COVEY, CO.

FORM OF CALCULATION OF COLLATERAL VALUE OF THE BORROWING BASE
[TO BE PROVIDED BY THE AGENT]

EXHIBIT C: FORM OF COMPLIANCE CERTIFICATE

To: BANK ONE, NA ("Bank One"), as Agent
and the Lenders party to the
Credit Agreement Described Below

This Compliance Certificate is furnished pursuant to that certain Credit Agreement dated as of July 10, 2001 among FRANKLIN COVEY CO. (the "Borrower"), the Lenders from time to time party thereto, Bank One, as the Agent for the Lenders, Bank One, as the LC Issuer, and Zions First National Bank, as the Swing Line Lender (as amended, extended and replaced from time to time, the "Credit Agreement"). Capitalized terms used herein and not otherwise defined shall have the meanings given such terms in the Credit Agreement.

THE UNDERSIGNED HEREBY CERTIFIES THAT:

1. I am the duly elected ____ of the Borrower;

2. I have reviewed the terms of the Agreement and I have made, or have caused to be made under my supervision, a detailed review of the transactions and conditions of the Borrower and its Subsidiaries during the accounting period covered by the attached financial statements;

3. The examinations described in Paragraph 2 did not disclose, and I have no knowledge of, the existence of any condition or event which constitutes a Default or Unmatured Default during or at the end of the accounting period covered by the attached financial statements or as of the date of this Certificate, except as set forth below; and

4. Schedule I attached hereto sets forth financial data and computations evidencing the Borrower's compliance with certain covenants of the Agreement, all of which data and computations are true, complete and correct.

5. Schedule II hereto sets forth the determination of the interest rates to be paid for Loans and the commitment fee rates commencing on the fifth day following the delivery hereof.

6. Schedule III attached hereto sets forth the various reports and deliveries which are required at this time under the Credit Agreement and the other Loan Documents and the status of compliance.

Described below are the exceptions, if any, to paragraph 3 by listing, in detail, the nature of the condition or event, the period during which it has existed and the action which the Borrower has taken, is taking, or proposes to take with respect to each such condition or event:

The foregoing certifications, together with the computations set forth in Schedule I **[and Schedule II]** hereto and the financial statements delivered with this Certificate in support hereof, are made and delivered this __ day of ___,

SCHEDULE I TO COMPLIANCE CERTIFICATE

Compliance as of ___, ___with
Provisions of and of
the Agreement

SCHEDULE II TO COMPLIANCE CERTIFICATE

Borrower's Applicable Margin Calculation

SCHEDULE III TO COMPLIANCE CERTIFICATE

Reports and Deliveries Currently Due

EXHIBIT D: FORM OF

GUARANTOR SECURITY AGREEMENT

THIS GUARANTOR SECURITY AGREEMENT (the "Guarantor Security Agreement") is made and dated as of 10th day of July, 2001, by and among ____, a____ corporation ("Guarantor"), and BANK ONE, NA ("Bank One"), as collateral agent (in such capacity, the "Agent") for itself and the other Credit Providers (as that term and capitalized terms not otherwise defined herein are defined in) that certain Credit Agreement dated of even date herewith by and among Franklin Covey Co. ("Borrower"), Bank One and the other Lenders from time to time party thereto, Bank One, as the Agent for the Lenders, Bank One, as the LC Issuer, and Zions First National Bank, as the Swing Line Lender (as amended, extended and replaced from time to time, the "Credit Agreement")).

RECITALS

A. Pursuant to the Credit Agreement the Lenders have agreed to extend credit to Borrower from time to time.

B. As a condition precedent to the Lenders' obligation to extend credit under the Credit Agreement and for certain of the Lenders to enter into Rate Management Transactions with Borrower, the Guarantor is required to execute and deliver to the Agent for the benefit of the Credit Providers that certain Guaranty dated concurrently herewith and, as collateral security for the payment and performance by Guarantor of the Guarantor Obligations (as defined in Paragraph 4 below), Guarantor is required to execute and deliver this Guarantor Security Agreement, and to grant to the Agent and to create a security interest for the benefit of the Collateral Providers in certain property of Guarantor, as hereinafter provided.

NOW, THEREFORE, in consideration of the above Recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

AGREEMENT

1. Appointment of Agent. Pursuant to the Credit Agreement, each of the Credit Providers has appointed the Agent as its agent under the Loan Documents, including, without limitation, under this Guarantor Security Agreement, and the Agent has accepted such appointment. The Agent agrees to act as secured party, agent, bailee and custodian for the exclusive benefit of the Credit Providers with respect to the Personal Property Collateral (as defined in Paragraph 3 below). The Agent agrees that the Agent will act with respect to the Personal Property Collateral for the exclusive benefit of the Credit Providers and is not, and shall not at any time in the future be, subject with respect to the Personal Property Collateral, in any manner or to any extent, to the direction or control of Borrower except as expressly permitted hereunder, under the other Loan Documents or as required by law.

2. Grant of Security Interest. Borrower hereby pledges, assigns and grants to the Agent, for the pro rata, pari passu benefit of the Credit Providers, and to each of the Credit Providers individually, a security interest in the Personal Property Collateral to secure payment and performance of the Guarantor Obligations.

3. Personal Property Collateral. The Personal Property Collateral shall consist of all right, title and interest of Guarantor in and to the following:

(a) All now existing and hereafter arising accounts, chattel paper, documents, instruments, letter-of-credit rights, commercial tort claims and general intangibles (as those terms are defined in the New York Uniform Commercial Code as in effect from time to time) of Guarantor, whether or not arising out of or in connection with the sale or lease of goods or the rendering of services, and all rights of Guarantor now and hereafter arising in and to all security agreements, guaranties, leases and other writings securing or otherwise relating to any such accounts, chattel paper, documents, instruments, letter-of-credit rights, commercial tort claims and general intangibles;

(b) All inventory of Guarantor, now owned and hereafter acquired, wherever located, including, without limitation, all merchandise, goods and other personal property which are held for sale or leased by Guarantor, all raw materials, work in process, materials used or consumed in Guarantor's business and finished goods, all goods in which Guarantor has an interest in mass or a joint or other interest or gifts of any kind (including goods in which Guarantor has an interest or right as consignee), and all goods which are returned to or repossessed by Guarantor, together with all additions and accessions thereto and replacements therefor and products thereof and documents therefor;

(c) All equipment of Guarantor, now owned and hereafter acquired, wherever located, and all parts thereof and all accessions, additions, attachments, improvements, substitutions and replacements thereto and therefor, including, without limitation, all machinery, tools, dies, blueprints, catalogues, computer hardware and software, furniture, furnishings and fixtures;

(c) All now existing and hereafter acquired Computer Hardware and Software Collateral, Copyright Collateral, Patent Collateral, Trademark Collateral and Trade Secrets Collateral (as those terms are defined in Paragraph 17 below) (collectively, the "Intellectual Property Collateral");

(e) All shares of capital stock, now owned or hereafter acquired by Guarantor, of each now existing and hereafter formed or acquired Wholly-Owned Domestic Subsidiary of Guarantor and sixty six percent (66%) of the shares of capital stock of each now existing and hereafter formed or acquired Wholly-Owned Foreign Subsidiary of Guarantor, together with all new, substituted and additional securities at any time issued with respect thereto (collectively and severally, the "Pledged Shares"), with the Pledged Shares existing on the date of this Guarantor Security Agreement being described on Schedule 1 attached hereto;

(f) All now existing and hereafter arising rights of the holder of Pledged Shares with respect thereto, including, without limitation, all voting rights and all rights to cash and noncash dividends and other distributions on account thereof;

(g) All deposit accounts, now existing and hereafter arising or established, maintained in Guarantor's name with any financial institution, including, without limitation, those accounts described more particularly on Schedule 2 attached hereto, and any and all funds at any time held therein and all certificates, instruments and other writings, if any, from time to time representing, evidencing or deposited into such accounts, and all interest, dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of the foregoing;

(h) All now existing and hereafter acquired books, records, writings, data bases, information and other property relating to, used or useful in connection with, embodying, incorporating or referring to, any of the foregoing Personal Property Collateral;

(i) All other property of Guarantor now or hereafter in the possession, custody or control of the Agent, and all property of Guarantor in which the Agent now has or hereafter acquires a security interest for the benefit of the Credit Providers;

(j) All now existing and hereafter acquired cash and cash equivalents held by Guarantor not otherwise included in the foregoing Personal Property Collateral; and

(k) All products and proceeds of the foregoing Personal Property Collateral. For purposes of this Guarantor Security Agreement, the term "proceeds" includes whatever is receivable or received when Personal Property Collateral or proceeds thereof is sold, collected, exchanged or otherwise disposed of, whether such disposition is voluntary or involuntary, and includes, without limitation, all rights to payment, including return premiums, with respect to any insurance relating thereto.

4. Obligations. The obligations secured by this Guarantor Security Agreement (collectively, the “Guarantor Obligations”) shall consist of all payment and performance obligations of Guarantor under the Guaranty and under this Guarantor Security Agreement, whether heretofore, now, or hereafter made, incurred or created, whether voluntary or involuntary and however arising, absolute or contingent, liquidated or unliquidated, determined or undetermined, whether or not such Guarantor Obligations are from time to time reduced, or extinguished and thereafter increased or incurred, whether Guarantor may be liable individually or jointly with others, whether or not recovery upon such Guarantor Obligations may be or hereafter become barred by any statute of limitations, and whether or not such Guarantor Obligations may be or hereafter become otherwise unenforceable.

5. Representations and Warranties. Documents, which are incorporated herein by this reference, Guarantor hereby represents and warrants that:

(a) Guarantor is the sole owner of and has good and marketable title to the Personal Property Collateral (or, in the case of after-acquired Personal Property Collateral, at the time Guarantor acquires rights in the Personal Property Collateral).

(b) Except as permitted pursuant to the Credit Agreement, no Person has (or, in the case of after-acquired Personal Property Collateral, at the time Guarantor acquires rights therein, will have) any right, title, claim or interest (by way of security interest or other Lien or charge) in, against or to the Personal Property Collateral.

(c) All information heretofore, herein or hereafter supplied to the Agent or any Credit Provider by or on behalf of Guarantor with respect to the Personal Property Collateral is accurate and complete in all material respects.

(d) Guarantor has delivered to the Agent all instruments, chattel paper and other items of Personal Property Collateral requested to be delivered by the Agent in which a security interest is or may be perfected by possession, together with such additional writings, including, without limitation, stock transfer powers and assignments, with respect thereto as the Agent shall request.

6. Covenants and Agreements of Guarantor. In addition to all covenants and agreements of Guarantor set forth in the other Loan Documents, which are incorporated herein by this reference, Guarantor hereby agrees, at no cost or expense to the Agent or any of the Credit Providers:

(a) To do all commercially reasonable acts (other than acts which are required to be done by the Agent) that may be necessary to maintain, preserve and protect the Personal Property Collateral and, to the extent such actions are required to be taken by Guarantor, the first priority, perfected security interest of the Agent for the benefit of the Credit Providers therein.

(b) Not to use or permit any Personal Property Collateral to be used unlawfully or in violation of any provision of this Guarantor Security Agreement, any other agreement with the Agent and/or the Credit Providers related hereto, or any law, rule, regulation, order, writ, judgment, injunction, decree or award binding on Guarantor or affecting any of the Personal Property Collateral or any contractual obligation affecting any of the Personal Property Collateral.

(c) To pay promptly when due all taxes, assessments, charges, encumbrances and Liens now or hereafter imposed upon or affecting any Personal Property Collateral.

(d) To appear in and defend any action or proceeding which may affect its title to or the Agent's interest on behalf of the Credit Providers in the Personal Property Collateral.

(e) Not to surrender or lose possession of (other than to the Agent), sell, encumber, lease, rent, or otherwise dispose of or transfer any Personal Property Collateral or right or interest therein except as expressly provided herein and in the other Loan Documents, and to keep the Personal Property Collateral free of all levies and security interests or other Liens or charges except those permitted under the Credit Agreement or otherwise approved in writing by the Agent; provided, however, that, unless a Default shall have occurred and be continuing, Guarantor may, in the ordinary course of business, sell or lease any Personal Property Collateral consisting of inventory.

(f) To account fully for and promptly deliver to the Agent, in the form received, all documents, chattel paper, instruments and agreements constituting Personal Property Collateral hereunder, including, without limitation, all stock certificates evidencing Pledged Shares, and all following the occurrence of a Default proceeds of the Personal Property Collateral received, all endorsed to the Agent or in blank, as requested by the Agent, and accompanied by such stock powers as may be required by the Agent and until so delivered all such documents, instruments, agreements and proceeds shall be held by Guarantor in trust for the Agent for the benefit of the Credit Providers, separate from all other property of Guarantor.

(g) To keep separate, accurate and complete records of the Personal Property Collateral and to provide the Agent and each of the Credit Providers with such records and such other reports and information relating to the Personal Property Collateral as the Agent or any Credit Provider may reasonably request from time to time.

(h) To give the Agent thirty (30) days prior written notice of any change in Guarantor's chief place of business or legal name or trade name(s) or style(s) referred to in Paragraph 12 below.

(i) To keep the records concerning the Personal Property Collateral at the location(s) referred to in Paragraph 12 below and not to remove such records from such location(s) without the prior written consent of the Agent.

(j) To keep the Personal Property Collateral at the location(s) referred to in Paragraph 11 below and not to remove the Personal Property Collateral from such location(s) without the prior written consent of the Agent.

(k) To keep the Personal Property Collateral in good condition and repair and not to cause or permit any waste or unusual or unreasonable depreciation of the Personal Property Collateral.

7. Authorized Action by Secured Party. Guarantor hereby agrees that following the occurrence and during the continuance of a Guarantor Default (as defined in Paragraph 10 below), without presentment, notice or demand, and without affecting or impairing in any way the rights of the Agent with respect to the Personal Property Collateral, the obligations of Guarantor hereunder or under the Guaranty or any other Loan Document, the Agent may, but shall not be obligated to and shall incur no liability to Guarantor, any Credit Provider or any third party for failure to, take any action which Guarantor is obligated by this Guarantor Security Agreement to do and to exercise such rights and powers as Guarantor might exercise with respect to the Personal Property Collateral, and Guarantor hereby irrevocably appoints the Agent as its attorney-in-fact to exercise such rights and powers, including without limitation, to:

(a) Collect by legal proceedings or otherwise and endorse, receive and receipt for all dividends, interest, payments, proceeds and other sums and property now or hereafter payable on or on account of the Personal Property Collateral.

(b) Enter into any extension, reorganization, deposit, merger, consolidation or other agreement pertaining to, or deposit, surrender, accept, hold or apply other property in exchange for the Personal Property Collateral.

(c) Insure, process and preserve the Personal Property Collateral.

(d) Transfer the Personal Property Collateral to its own or its nominee's name.

(e) Make any compromise or settlement, and take any action it deems advisable, with respect to the Personal Property Collateral.

(f) Subject to the provisions of Paragraph 8 below, notify any obligor on any Personal Property Collateral to make payment directly to the Agent.

Guarantor hereby grants to the Agent for the benefit of the Credit Providers an exclusive, irrevocable power of attorney, with full power and authority in the place and stead of Guarantor to take all such action permitted under this Paragraph 7; provided, however, that the Agent agrees that it shall not exercise such power of attorney unless there shall have occurred and is continuing a Guarantor Default. Guarantor agrees to reimburse the Agent upon demand for any costs and expenses, including, without limitation, attorneys' fees, the Agent may incur while acting as Guarantor's attorney-in-fact hereunder, all of which costs and expenses are included in the Obligations secured hereby. It is further agreed and understood between the parties hereto that such care as the Agent gives to the safekeeping of its own property of like kind shall constitute reasonable care of the Personal Property Collateral when in the Agent's possession; provided, however, that the Agent shall not be required to make any presentment, demand or protest, or give any notice and need not take any action to preserve any rights against any prior party or any other person in connection with the Obligations or with respect to the Personal Property Collateral.

8. Collection of Personal Property Collateral Payments.

(a) Guarantor shall, at its sole cost and expense, endeavor to obtain payment, when due and payable, of all sums due or to become due with respect to any Personal Property Collateral ("Personal Property Collateral Payments" or a "Personal Property Collateral Payment"), including, without limitation, the taking of such action with respect thereto as the Agent or any Credit Provider may reasonably request, or, in the absence of such request, as Guarantor may reasonably deem advisable; provided, however, that Guarantor shall not, without the prior written consent of the Agent and the Credit Providers, grant or agree to any rebate, refund, compromise or extension with respect to any Personal Property Collateral Payment or accept any prepayment on account thereof other than in the ordinary course of Guarantor's business. Upon the request of the Agent at the direction of all the Credit Providers following the occurrence of a Guarantor Default, Guarantor will notify and direct any party who is or might become obligated to make any Personal Property Collateral Payment, to make payment thereof to such accounts as the Agent may direct in writing and to execute all instruments and take all action required by the Agent to ensure the rights of the Agent for the benefit of the Credit Providers in any Personal Property Collateral subject to the Federal Assignment of Claims Act of 1940, as amended.

(b) Upon the request of the Agent following the occurrence of a Guarantor Default, Guarantor will, forthwith upon receipt, transmit and deliver to the Agent, in the form received, all cash, checks, drafts and other instruments for the payment of money (properly endorsed where required so that such items may be collected by the Agent) which may be received by Guarantor at any time as payment on account of any Personal Property Collateral Payment and if such request shall be made, until delivery to the Agent, such items will be held in trust for the Agent and the Credit Providers and will not be commingled by Guarantor with any of its other funds or property. Thereafter, the Agent is hereby authorized and empowered to endorse the name of Guarantor on any check, draft or other instrument for the payment of money received by the Agent on account of any Personal Property Collateral Payment if the Agent believes such endorsement is necessary or desirable for purposes of collection.

(c) Guarantor will indemnify and save harmless the Agent from and against all reasonable liabilities and expenses on account of any adverse claim asserted against the Agent relating to any moneys received by the Agent on account of any Personal Property Collateral Payment and such obligation of Guarantor shall continue in effect after and notwithstanding the discharge of the Obligations and the release of the security interest granted in Paragraph 2 above.

9. Additional Covenants Regarding Intellectual Property Collateral.

(a) Guarantor shall not, unless it shall either reasonably and in good faith determine that such Personal Property Collateral is of negligible economic value to Guarantor or that there is a valid purpose to do otherwise:

(1) Permit any Patent Collateral to lapse or become abandoned or dedicated to the public or otherwise be unenforceable;

(2) (i) Fail to continue to use any of the Trademark Collateral in order to maintain all of the Trademark Collateral in full force free from any claim of abandonment for non-use, (ii) fail to maintain as in the past the quality of products and services offered under all of the Trademark Collateral, (iii) fail to employ all of the Trademark Collateral registered with any Federal or state or foreign authority with an appropriate notice of such registration, (iv) adopt or use any other Trademark which is confusingly similar or a colorable imitation of any of the Trademark Collateral, (v) use any of the Trademark Collateral registered with any Federal or state or foreign authority except for the uses for which registration or application for registration of all of the Trademark Collateral has been made, or (vi) do or permit any act or knowingly omit to do any act whereby any of the Trademark Collateral may lapse or become invalid or unenforceable;

(3) Do or permit any act or knowingly omit to do any act whereby any of the Copyright Collateral or any of the Trade Secrets Collateral may lapse or become invalid or unenforceable or placed in the public domain except upon expiration of the end of an unrenewable term of a registration thereof.

(b) Guarantor shall notify the Agent immediately if it knows, or has reason to know, that any application or registration relating to any material item of the Intellectual Property Collateral may become abandoned or dedicated to the public or placed in the public domain or invalid or unenforceable, or of any adverse determination or development (including the institution of, or any such determination or development in, any proceeding in the United States Patent and Trademark Office, the United States Copyright Office or any foreign counterpart thereof or any court) regarding Guarantor's ownership of any of the Intellectual Property Collateral, its right to register the same or to keep and maintain and enforce the same.

(c) In no event shall Guarantor or any of its agents, employees, designees or licensees file an application for the registration of any Intellectual Property Collateral with the United States Patent and Trademark Office, the United States Copyright Office or any similar office or agency in any other country or any political subdivision thereof, unless it promptly informs the Agent, and upon request of the Agent, executes and delivers any and all agreements, instruments, documents and papers as the Agent may reasonably request to evidence the Agent's security interest in such Intellectual Property Collateral and the goodwill and general intangibles of Guarantor relating thereto or represented thereby.

(d) Guarantor shall, contemporaneously herewith, execute and deliver to the Agent such supplemental agreements for filing in the Patent and Trademark Office as the Agent may require and shall execute and deliver to the Agent any other document required to acknowledge or register or perfect the Agent's interest in any part of the Intellectual Property Collateral.

10. Guarantor Default; Remedies. Upon the occurrence of any of the following (each, a "Guarantor Default"):

(a) There shall occur a Default under Sections 7.6 or 7.7 of the Credit Agreement; or

(b) There shall occur a Default under Section 7.16 relating to the Guaranty or any Guarantor Loan Document executed by Guarantor; or

(c) There shall occur any other Default and the Obligations shall be declared immediately due and payable;

THEN:

the Agent may, without notice to or demand on Guarantor and in addition to all rights and remedies available to the Agent and the Credit Providers with respect to the Obligations, at law, in equity or otherwise, do any one or more of the following:

(1) Foreclose or otherwise enforce the Agent's security interest in any manner permitted by law or provided for in this Guarantor Security Agreement.

(2) Sell, lease or otherwise dispose of any Personal Property Collateral at one or more public or private sales at the Agent's place of business or any other place or places, including, without limitation, any broker's board or securities exchange, whether or not such Personal Property Collateral is present at the place of sale, for cash or credit or future delivery, on such terms and in such manner as the Agent may determine.

(3) Recover from Guarantor all costs and expenses, including, without limitation, reasonable attorneys' fees (including the allocated cost of internal counsel), incurred or paid by the Agent or any Credit Provider in exercising any right, power or remedy provided by this Guarantor Security Agreement.

(4) Require Guarantor to assemble the Personal Property Collateral and make it available to the Agent at a place to be designated by the Agent.

(5) Enter onto property where any Personal Property Collateral is located and take possession thereof with or without judicial process.

(6) Prior to the disposition of the Personal Property Collateral, store, process, repair or recondition it or otherwise prepare it for disposition in any manner and to the extent the Agent deems appropriate and in connection with such preparation and disposition, without charge, use any trademark, tradename, copyright, patent or technical process used by Guarantor.

Guarantor shall be given five (5) Business Days' prior notice of the time and place of any public sale or of the time after which any private sale or other intended disposition of Personal Property Collateral is to be made, which notice Guarantor hereby agrees shall be deemed reasonable notice thereof. Upon any sale or other disposition pursuant to this Guarantor Security Agreement, the Agent shall have the right to deliver, assign and transfer to the purchaser thereof the Personal Property Collateral or portion thereof so sold or disposed of. Each purchaser at any such sale or other disposition (including the Agent) shall hold the Personal Property Collateral free from any claim or right of whatever kind, including any equity or right of redemption of Guarantor and Guarantor specifically waives (to the extent permitted by law) all rights of redemption, stay or appraisal which it has or may have under any rule of law or statute now existing or hereafter adopted.

11. Administration of the Pledged Shares. In addition to any provisions of this Guarantor Security Agreement which govern the administration of the Personal Property Collateral generally, the following provisions shall govern the administration of the Pledged Shares:

(a) Until there shall have occurred and be continuing a Guarantor Default, Guarantor shall be entitled to vote or consent with respect to the Pledged Shares in any manner not inconsistent with this Guarantor Security Agreement or any document or instrument delivered or to be delivered pursuant to or in connection with any thereof and to receive all dividends paid with respect to the Pledged Shares. If there shall have occurred and be continuing a Guarantor Default and the Agent shall have notified Guarantor that the Agent desires to exercise its proxy rights with respect to all or a portion of the Pledged Shares, Guarantor hereby grants to the Agent an irrevocable proxy for the Pledged Shares pursuant to which proxy the Agent shall be entitled to vote or consent, in its discretion, and in such event Guarantor agrees to deliver to the Agent such further evidence of the grant of such proxy as the Agent may request.

(b) In the event that at any time or from time to time after the date hereof, Guarantor, as record and beneficial owner of the Pledged Shares, shall receive or shall become entitled to receive, any dividend or any other distribution whether in securities or property by way of stock split, spin-off, split-up or reclassification, combination of shares or the like, or in case of any reorganization, consolidation or merger, and Guarantor, as record and beneficial owner of the Pledged Shares, shall thereby be entitled to receive securities or property in respect of such Pledged Shares, then and in each such case, Guarantor shall deliver to the Agent and the Agent shall be entitled to receive and retain all such securities or property as part of the Pledged Shares as security for the payment and performance of the Obligations; provided, however, that until there shall have occurred a Guarantor Default, Guarantor shall be entitled to retain any cash dividends paid on account of the Pledged Shares.

(c) Upon the occurrence of a Guarantor Default, the Agent is authorized to sell the Pledged Shares and, at any such sale of any of the Pledged Shares, if it deems it advisable to do so, to restrict the prospective bidders or purchasers to persons or entities who (1) will represent and agree that they are purchasing for their own account, for investment, and not with a view to the distribution or sale of any of the Pledged Shares; and (2) satisfy the offeree and purchaser requirements for a valid private placement transaction under Section 4(2) of the Securities Act of 1933, as amended (the "Act"), and under Securities and Exchange Commission Release Nos. 33-6383; 34-18524; 35-22407; 39-700; IC-12264; AS-306, or under any similar statute, rule or regulation. Guarantor agrees that disposition of the Pledged Shares pursuant to any private sale made as provided above may be at prices and on other terms less favorable than if the Pledged Shares were sold at public sale, and that the Agent has no obligation to delay the sale of any Pledged Shares for public sale under the Act. Guarantor agrees that a private sale or sales made under the foregoing circumstances shall be deemed to have been made in a commercially reasonable manner. In the event that the Agent elects to sell the Pledged Shares, or part of them, and there is a public market for the Pledged Shares, in a public sale Guarantor shall use its best efforts to register and qualify the Pledged Shares, or applicable part thereof, under the Act and all state Blue Sky or securities laws required by the proposed terms of sale and all expenses thereof shall be payable by Guarantor, including, but not limited to, all costs of (i) registration or qualification of, under the Act or any state Blue Sky or securities laws or pursuant to any applicable rule or regulation issued pursuant thereto, any Pledged Shares, and (ii) sale of such Pledged Shares, including, but not limited to, brokers' or underwriters' commissions, fees or discounts, accounting and legal fees, costs of printing and other expenses of transfer and sale.

(d) If any consent, approval or authorization of any state, municipal or other governmental department, agency or authority should be necessary to effectuate any sale or other disposition of the Pledged Shares, or any part thereof, Guarantor will execute such applications and other instruments as may be required in connection with securing any such consent, approval or authorization, and will otherwise use its best efforts to secure the same.

(e) Nothing contained in this Paragraph 11 shall be deemed to limit the other obligations of Guarantor contained in this Guarantor Security Agreement or the other Loan Documents and the rights of the Agent and the Credit Providers hereunder or thereunder.

12. Place of Business; Personal Property Collateral Location; Records Location. Guarantor represents that its chief place of business is as set forth on Schedule 3 attached hereto; that the only trade name(s) or style(s) used by Guarantor are set forth on said Schedule 3; and that, except as otherwise disclosed to the Agent in writing prior to the date hereof, the Personal Property Collateral and Guarantor's records concerning the Personal Property Collateral are located at its chief place of business.

13. Waiver of Hearing. Guarantor expressly waives to the extent permitted under applicable law any constitutional or other right to a judicial hearing prior to the time the Agent takes possession or disposes of the Personal Property Collateral upon the occurrence of a Guarantor Default.

14. Cumulative Rights. The rights, powers and remedies of the Agent and any of the Credit Providers under this Guarantor Security Agreement shall be in addition to all rights, powers and remedies given to the Agent and any of the Credit Providers by virtue of any statute or rule of law, the Loan Documents or any other agreement, all of which rights, powers and remedies shall be cumulative and may be exercised successively or concurrently without impairing the Agent's and any of the Credit Providers' security interest in the Personal Property Collateral.

15. Waiver. Any forbearance or failure or delay by the Agent in exercising any right, power or remedy shall not preclude the further exercise thereof, and every right, power or remedy of the Agent or any of the Credit Providers shall continue in full force and effect until such right, power or remedy is specifically waived in a writing executed by the Agent or such other Secured Party, as applicable. Guarantor waives any right to require any Secured Party to proceed against any person or to exhaust any Personal Property Collateral or to pursue any remedy in such Secured Party's power.

16. Setoff. Guarantor agrees that, as between the Guarantor, on the one hand, and the Agent and the Credit Providers, on the other hand, the Agent and each Credit Provider may exercise its rights of setoff with respect to the Obligations in the same manner as if the Obligations were unsecured.

17. Intellectual Property Collateral. For purposes of this Guarantor Security Agreement, the following capitalized terms shall have the following meanings:

"Computer Hardware and Software Collateral" means all of Guarantor's right, title and interest in all now existing and hereafter created or acquired:

(a) Computer and other electronic data processing hardware, integrated computer systems, central processing units, memory units, display terminals, printers, features, computer elements, card readers, tape drives, hard and soft disk drives, cables, electrical supply hardware, generators, power equalizers, accessories and all peripheral devices and other related computer hardware;

(b) Software programs (including both source code, object code and all related applications and data files), whether owned, licensed or leased, designed for use on the computers and electronic data processing hardware described in subparagraph (a) above;

(c) All firmware associated therewith;

(d) All documentation (including flow charts, logic diagrams, manuals, guides and specifications) with respect to such hardware, software and firmware described in subparagraph (a) through (c) above; and

(e) All rights with respect to all of the foregoing, including, without limitation, any and all of Guarantor's copyrights, licenses, options, warranties, service contracts, program services, test rights, renewal rights and indemnifications and any substitutions, replacements, additions or model conversions of any of the foregoing.

"Copyright Collateral" means copyrights and all semi-conductor chip product mask works of Guarantor, whether statutory or common law, registered or unregistered, now or hereafter in force throughout the world including, without limitation, all of Guarantor's right, title and interest in and to all copyrights and mask works registered in the United States Copyright Office or anywhere else in the world, and all applications for registration thereof, whether pending or in preparation, all copyright and mask work licenses, the right of Guarantor to sue for past, present and future infringements of any thereof, all rights of Guarantor corresponding thereto throughout the world, all extensions and renewals of any thereof and all proceeds of the foregoing, including, without limitation, licenses, royalties, income, payments, claims damages and proceeds of suit.

"Patent Collateral" means:

(a) All of Guarantor's letters patent and applications for letters patent throughout the world, including all of Guarantor's patent applications in preparation for filing anywhere in the world and with the United States Patent and Trademark Office;

(b) All of Guarantor's patent licenses;

(c) All reissues, divisions, continuations, continuations-in-part, extensions, renewals and reexaminations of any of the items described in clauses (a) and (b); and

(d) All proceeds of, and rights associated with, the foregoing (including license royalties and proceeds of infringements suits), the right of Guarantor to sue third parties for past, present or future infringements of any patent or patent application of Guarantor, and for breach of enforcement of any patent license, and all rights corresponding thereto throughout the world.

"Trademark Collateral" means:

(a) All of Guarantor's trademarks, trade names, corporate names, business names, fictitious business names, trade styles, service marks, certification marks, collective marks, logos, other source of business identifiers, prints and labels on which any of the foregoing have appeared or appear, designs and general intangibles of a like nature (all of the foregoing items in this clause (a) being collectively called a "Trademark"), now existing anywhere in the world or hereafter adopted or acquired, whether currently in use or not, all registrations and recordings thereof and all applications in connection therewith, whether pending or in preparation for filing, including registrations, recordings and applications in the United States Patent and Trademark Office or in any office or agency of the United States of America or any State thereof or any foreign country;

(b) All of Guarantor's Trademark licenses;

(c) All reissues, extensions or renewals of any of the items described in clauses (a) and (b);

(d) All of the goodwill of the business of Guarantor connected with the use of, and symbolized by the items described in, clauses (a) and (b, and

(e) All proceeds of, and rights of Guarantor associated with, the foregoing, including any claim by Guarantor against third parties for past, present or future infringement or dilution of any Trademark, Trademark registration or Trademark license, or for any injury to the goodwill associated with the use of any such Trademark or for breach or enforcement of any Trademark license.

"Trade Secrets Collateral" means common law and statutory trade secrets and all other confidential or proprietary or useful information and all know-how obtained by or used in or contemplated at any time for use in the business of Guarantor (all of the foregoing being collectively called a "Trade Secret"), whether or not such Trade Secret has been reduced to a writing or other tangible form including all documents and things embodying, incorporating or referring in any way to such Trade Secret, all Trade Secret licenses, including the right to sue for and to enjoin and to collect damages for the actual or threatened misappropriation of any Trade Secret and for the breach or enforcement of any such Trade Secret license.

[Signature Page Following]

EXECUTED as of the day and year first above written.

FRANKLIN COVEY CO.

By: _____

Name: _____

Title: _____

BANK ONE, NA, as Agent

By: _____

Name: _____

Title: _____

LIST OF SCHEDULES AND EXHIBITS

Schedule 1	Initial Pledged Shares
Schedule 2	Existing Deposit Accounts
Schedule 3	Locations of Equipment, Inventory, Places of Business, Chief Executive Office, and Books and Records and Tradenames

Schedule 1
to Guarantor Security Agreement

Initial Pledged Shares
(as of the Effective Date)

COMPANY NAME	NO. OF SHARES	PERCENTAGE OWNERSHIP INTEREST

[Borrower to provide]

Schedule 2
to Guarantor Security Agreement

Deposit Accounts
(as of the Effective Date)

Institution where Account is Held	Account Number

[Borrower to provide]

Schedule 3
to Guarantor Security Agreement

Locations of Equipment, Inventory, Places of Business, Chief Executive Office and Books and Records and Tradenames

[Borrower to provide]

EXHIBIT E: FORM OF

GUARANTY

THIS GUARANTY (the "Guaranty") is made and dated as of 10th day of July, 2001, by _____, a_____ corporation ("Guarantor"), in favor of BANK ONE, NA ("Bank One"), as agent (in such capacity, the "Agent") for itself and the other Credit Providers (as that term and capitalized terms not otherwise defined herein are defined in) that certain Credit Agreement dated of even date herewith by and among Franklin Covey Co. ("Borrower"), the Lenders from time to time party thereto, Bank One, as the Agent for the Lenders, Bank One, as the LC Issuer, and Zions First National Bank, as the Swing Line Lender (as amended, extended and replaced from time to time, the "Credit Agreement")).

RECITALS

A. Pursuant to the Credit Agreement the Lenders have agreed to extend credit to Borrower from time to time.

B. As a condition precedent to the Lenders' obligation to extend credit under the Credit Agreement and for certain of the Lenders to enter into Rate Management Transactions with Borrower, the Guarantor is required to execute and deliver to the Agent for the benefit of the Credit Providers this Guaranty and, as collateral security for the payment and performance by Guarantor of its obligations hereunder, Guarantor is required to execute and deliver that certain Guarantor Security Agreement of even date herewith, and to grant to the Agent and to create a security interest for the benefit of the Collateral Providers in certain property of Guarantor, as hereinafter provided.

NOW, THEREFORE, in consideration of the above Recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Guarantor hereby agrees as follows:

AGREEMENT

1. Guarantor hereby absolutely and unconditionally guarantees the payment when due, upon maturity, acceleration or otherwise, of all Obligations, including in all cases, whether heretofore, now, or hereafter made, incurred or created, whether voluntary or involuntary and however arising, absolute or contingent, liquidated or unliquidated, determined or undetermined, whether or not such Obligations are from time to time reduced, or extinguished and thereafter increased or incurred, whether the Company may be liable individually or jointly with others, whether or not recovery upon such Obligations may be or hereafter become barred by any statute of limitations, and whether or not such Obligations may be or hereafter become otherwise unenforceable.

2. Guarantor hereby absolutely and unconditionally guarantees the payment of the Obligations, whether or not due or payable by the Company, upon: (a) the dissolution, insolvency or business failure of, or any assignment for benefit of creditors by, or commencement of any bankruptcy, reorganization, arrangement, moratorium or other debtor relief proceedings by or against, either the Company or Guarantor, or (b) the appointment of a receiver for, or the attachment, restraint of or making or levying of any order of court or legal process affecting, the property of either the Company or Guarantor, and unconditionally promises to pay such Obligations to the Agent for the benefit of Credit Providers, or order, on demand, in lawful money of the United States.

3. The liability of Guarantor hereunder is exclusive and independent of any security for or other guaranty of the Obligations, whether executed by Guarantor or by any other party, and the liability of Guarantor hereunder is not affected or impaired by (a) any direction of application of payment by the Company or by any other party, or (b) any other guaranty, undertaking or maximum liability of Guarantor or of any other party as to the Obligations, or (c) any payment on or in reduction of any such other guaranty or undertaking, or (d) any revocation or release of any obligations of any other guarantor of the Obligations, or (e) any dissolution, termination or increase, decrease or change in personnel of Guarantor, or (f) any payment made to the Agent or any Credit Provider on the Obligations which the Agent or any Credit Provider repays to the Company pursuant to court order in any bankruptcy, reorganization, arrangement, moratorium or other debtor relief proceeding, and Guarantor waives any right to the deferral or modification of Guarantor's obligations hereunder by reason of any such proceeding.

4. (a) The obligations of Guarantor hereunder are independent of the obligations of the Company with respect to the Obligations, and a separate action or actions may be brought and prosecuted against Guarantor whether or not action is brought against the Company and whether or not the Company be joined in any such action or actions. Guarantor waives, to the fullest extent permitted by law, the benefit of any statute of limitations affecting its liability hereunder or the enforcement thereof. Any payment by the Company or other circumstance which operates to toll any statute of limitations as to the Company shall operate to toll the statute of limitations as to Guarantor.

(b) All payments made by Guarantor under this Guaranty shall be made without set-off or counterclaim and free and clear of and without deductions for any present or future taxes, fees, withholdings or conditions of any nature ("Taxes"). Guarantor shall pay any such Taxes, including Taxes on any amounts so paid, and will promptly furnish any Credit Provider copies of any tax receipts or such other evidence of payment as such Credit Provider may require.

5. Guarantor authorizes the Agent and Credit Providers (whether or not after termination of this Guaranty), without notice or demand (except as shall be required by applicable statute and cannot be waived), and without affecting or impairing its liability hereunder, from time to time to (a) renew, compromise, extend, increase, accelerate or otherwise change the time for payment of, or otherwise change the terms of Obligations or any part thereof, including increase or decrease of the rate of interest thereon; (b) take and hold security for the payment of this Guaranty or the Obligations and exchange, enforce, waive and release any such security; (c) apply such security and direct the order or manner of sale thereof as the Agent and Credit Providers in their discretion may determine; and (d) release or substitute any one or more endorsers, guarantors, the Company or other obligors. The Agent and Credit Providers may, without notice to or the further consent of the Company or Guarantor, assign this Guaranty in whole or in part to any person acquiring an interest in the Obligations.

6. It is not necessary for the Agent or any Credit Provider to inquire into the capacity or power of the Company or the officers acting or purporting to act on their behalf, and Obligations made or created in reliance upon the professed exercise of such powers shall be guaranteed hereunder.

7. Guarantor waives any right to require the Agent or any Credit Provider to (a) proceed against the Company or any other party; (b) proceed against or exhaust any security held from the Company; or (c) pursue any other remedy whatsoever. Guarantor waives any personal defense based on or arising out of any personal defense of the Company other than payment in full of the Obligations, including, without limitation, any defense based on or arising out of the disability of either the Company, or the unenforceability of the Obligations or any part thereof from any cause, or the cessation from any cause of the liability of the Company other than payment in full of the Obligations. The Agent and Credit Providers may, at their election, foreclose on any security held for the Obligations by one or more judicial or nonjudicial sales, or exercise any other right or remedy they may have against the Company, or any security, without affecting or impairing in any way the liability of Guarantor hereunder except to the extent the Obligations have been paid. Guarantor waives all rights and defenses arising out of an election of remedies, even though that election of remedies, such as a nonjudicial foreclosure with respect to security for a guaranteed obligation, has destroyed Guarantor's rights of subrogation and reimbursement against the principal.

8. Guarantor hereby waives any claim or other rights which Guarantor may now have or may hereafter acquire against the Company or any other guarantor of all or any of the Obligations that arise from the existence or performance of Guarantor's obligations under this Guaranty or any other of the Loan Documents (all such claims and rights being referred to as the "Guarantor's Conditional Rights"), including, without limitation, any right of subrogation, reimbursement, exoneration, contribution, or indemnification, any right to participate in any claim or remedy which the Agent or any Credit Provider has against the Company or any collateral which the Agent or any Credit Provider now has or hereafter acquires for the Obligations, whether or not such claim, remedy or right arises in equity or under contract, statute or common law, by any payment made hereunder or otherwise, including, without limitation, the right to take or receive from the Company, directly or indirectly, in cash or other property or by setoff or in any other manner, payment or security on account of such claim or other rights. If, notwithstanding the foregoing provisions, any amount shall be paid to Guarantor on account of Guarantor's Conditional Rights and either (a) such amount is paid to Guarantor at any time when the Obligations shall not have been paid or performed in full, or (b) regardless of when such amount is paid to Guarantor any payment made by the Company to the Agent or any Credit Provider is at any time determined to be a preferential payment, then such amount paid to Guarantor shall be deemed to be held in trust for the benefit of Credit Providers and shall forthwith be paid to the Agent for the benefit of Credit Providers to be credited and applied upon the Obligations, whether matured or unmatured, in such order and manner as Credit Providers, in their sole discretion, shall determine. To the extent that any of the provisions of this Paragraph 8 shall not be enforceable, Guarantor agrees that until such time as the Obligations have been paid and performed in full and the period of time has expired during which any payment made by the Company or Guarantor may be determined to be a preferential payment, Guarantor's Conditional Rights to the extent not validly waived shall be subordinate to the Credit Providers' right to full payment and performance of the Obligations and Guarantor shall not seek to enforce Guarantor's Conditional Rights during such period.

9. Guarantor waives all presentments, demands for performance, protests and notices, including, without limitation, notices of nonperformance, notices of protest, notices of dishonor, notices of acceptance of this Guaranty, and notices of the existence, creation or incurring of new or additional Obligations. Guarantor assumes all responsibility for being and keeping itself informed of either the Company's financial condition and assets, and of all other circumstances bearing upon the risk of nonpayment of the Obligations and the nature, scope and extent of the risks which Guarantor assumes and incurs hereunder, and agrees that neither the Agent nor any Credit Provider shall have a duty to advise Guarantor of information known to it regarding such circumstances or risks.

10. In addition to the Obligations, Guarantor agrees to pay reasonable attorneys' fees and all other reasonable costs and expenses incurred by the Agent and Credit Providers in enforcing this Guaranty in any action or proceeding arising out of or relating to this Guaranty.

11. Guarantor hereby represents and warrants to the Agent and each Credit Provider that:

(a) Guarantor has reviewed and approved the Credit Agreement and the other Loan Documents.

(b) All representations and warranties relating to Guarantor set forth in the Credit Agreement are accurate and complete in all respects.

12. Guarantor hereby covenants and agrees with the Agent and the Credit Providers that it will cooperate with the Company to facilitate the Company's compliance with all the covenants set forth in the Credit Agreement. Guarantor further agrees to execute any and all further documents, instruments and agreements as the Agent from time to time reasonably requests to evidence Guarantor's obligations hereunder.

13. This Guaranty shall be governed by and construed in accordance with the laws of the State of New York without giving effect to its choice of law rules.

14. ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS GUARANTY MAY BE BROUGHT IN THE COURTS OF THE UNITED STATES FEDERAL OR NEW YORK STATE COURT SITTING IN NEW YORK NEW YORK, AND BY EXECUTION AND DELIVERY OF THIS GUARANTY, GUARANTOR CONSENTS, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, TO THE NON-EXCLUSIVE JURISDICTION OF THOSE COURTS. GUARANTOR IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS, WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY ACTION OR PROCEEDING IN SUCH JURISDICTION IN RESPECT OF THIS GUARANTY. GUARANTOR WAIVES PERSONAL SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER PROCESS, WHICH MAY BE MADE BY ANY OTHER MEANS PERMITTED BY CALIFORNIA LAW.

15. GUARANTOR, AND BY ACCEPTING THIS GUARANTY THE COLLATERAL AGENT FOR ITSELF AND ON BEHALF OF THE CREDIT PROVIDERS, WAIVES ITS RIGHTS TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF OR RELATED TO THIS GUARANTY OR THE TRANSACTIONS CONTEMPLATED HEREBY, IN ANY ACTION, PROCEEDING OR OTHER LITIGATION OF ANY TYPE BROUGHT BY ANY PARTY AGAINST ANY OTHER PARTY, WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS, OR OTHERWISE. GUARANTOR AND THE AGENT FOR ITSELF AND ON BEHALF OF THE CREDIT PROVIDERS AGREES THAT ANY SUCH CLAIM OR CAUSE OF ACTION SHALL BE TRIED BY A COURT TRIAL WITHOUT A JURY. WITHOUT LIMITING THE FOREGOING, GUARANTOR FURTHER AGREES THAT ITS RIGHT TO A TRIAL BY JURY IS WAIVED BY OPERATION OF THIS SECTION AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEKS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS GUARANTY OR ANY PROVISION HEREOF. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS GUARANTY.

[Signature page following]

IN WITNESS WHEREOF, this Guaranty has been executed as of the date first above written.

FRANKLIN COVEY CO., a Utah Corporation

By: J. SCOTT NIELSEN

Name: J. SCOTT NIELSEN

Title: Senior Vice President - Finance

EXHIBIT F-1: FORM OF
REVOLVING LOANS NOTE

[Date]

FRANKLIN COVEY CO., a Utah corporation (the "Borrower"), promises to pay to the order of _____ (the "Lender") the Lender's Pro Rata Share of the aggregate unpaid principal amount of all Revolving Loans made to the Borrower pursuant to Article II of the Agreement (as hereinafter defined), in immediately available funds at the main office of Bank One, NA in Chicago, Illinois, as Agent, together with interest on the unpaid

principal amount hereof at the rates and on the dates set forth in the Agreement. The Borrower shall pay the principal of and accrued and unpaid interest on the Revolving Loans in full on the Facility Termination Date.

The Lender shall, and is hereby authorized to, record on the schedule attached hereto, or to otherwise record in accordance with its usual practice, the date and amount of Lender's Pro Rata Share of each Revolving Loan and the date and amount of each principal payment hereunder.

This Note is one of the Notes issued pursuant to, and is entitled to the benefits of, the Credit Agreement dated as of July 10, 2001 (which, as it may be amended or modified and in effect from time to time, is herein called the "Agreement"), among the Borrower, the lenders party thereto, including the Lender, the LC Issuer, the Swing Line Lender and Bank One, NA, as Agent, to which Agreement reference is hereby made for a statement of the terms and conditions governing this Note, including the terms and conditions under which this Note may or must be prepaid or its maturity date accelerated. This Note is secured pursuant to the Loan Documents and guaranteed pursuant to the Guaranties, all as more specifically described in the Agreement, and reference is made thereto for a statement of the terms and provisions thereof. Capitalized terms used herein and not otherwise defined herein are used with the meanings attributed to them in the Agreement.

FRANKLIN COVEY CO., a Utah Corporation

By: J. SCOTT NIELSEN

Name: J. SCOTT NIELSEN

Title: Senior Vice President - Finance

SCHEDULE OF REVOLVING LOANS AND PAYMENTS OF PRINCIPAL
TO
REVOLVING LOANS NOTE OF FRANKLIN COVEY CO.
DATED ____,

Date	Pro Rata Share of Principal Amount of Revolving Loan	Maturity of Interest Period	Principal Amount Paid	Unpaid Balance

EXHIBIT F-2: FORM OF
TERM LOAN NOTE

[Date]

FRANKLIN COVEY CO., a Utah corporation_ (the "Borrower"), promises to pay to the order of _____ (the "Lender") the Lender's Pro Rata Share of the unpaid principal amount of the Term Loan made to the Borrower pursuant to Article II of the Agreement (as hereinafter defined), in immediately available funds at the main office of Bank One, NA in Chicago, Illinois, as Agent, together with interest on the unpaid principal amount hereof at the rates and on the dates set forth in the Agreement.

The Lender shall, and is hereby authorized to, record on the schedule attached hereto, or to otherwise record in accordance with its usual practice, the date and amount of Lender's Pro Rata Share of the Term Loan and the date and amount of each principal payment hereunder.

This Note is one of the Notes issued pursuant to, and is entitled to the benefits of, the Credit Agreement dated as of July 10, 2001 (which, as it may be amended or modified and in effect from time to time, is herein called the "Agreement"), among the Borrower, the lenders party thereto, including the Lender, the LC Issuer, the Swing Line Lender and Bank One, NA, as Agent, to which Agreement reference is hereby made for a statement of the terms and conditions governing this Note, including the terms and conditions under which this Note may or must be prepaid or its maturity date accelerated. This Note is secured pursuant to the Loan Documents and guaranteed pursuant to the Guaranties, all as more specifically described in the Agreement, and reference is made thereto for a statement of the terms and provisions thereof. Capitalized terms used herein and not otherwise defined herein are used with the meanings attributed to them in the Agreement.

FRANKLIN COVEY CO., a Utah Corporation

By: J. SCOTT NIELSEN

Name: J. SCOTT NIELSEN

Title: Senior Vice President - Finance

SCHEDULE OF PAYMENTS OF TERM LOAN PRINCIPAL
TO
TERM LOAN NOTE OF FRANKLIN COVEY CO.
DATED ____,

Date	Pro Rata Share of Principal Amount of Term Loan	Maturity of Interest Period	Principal Amount Paid	Unpaid Balance

EXHIBIT F-3: FORM OF
SWING LINE LOANS NOTE

[Date]

FRANKLIN COVEY CO., a Utah corporation_ (the "Borrower"), promises to pay to the order of _____ (the "Swing Line Lender") the aggregate unpaid principal amount of all Swing Line Loans made by the Swing Line Lender to the Borrower pursuant to Article II of the Agreement (as hereinafter defined), in immediately available funds at the main office of Bank One, NA in Chicago, Illinois, as Agent, together with interest on the unpaid principal amount hereof at the rates and on the dates set forth in the Agreement. The Borrower shall pay the principal of and accrued and unpaid interest on the Swing Line Loans in full on the Facility Termination Date.

The Swing Line Lender shall, and is hereby authorized to, record on the schedule attached hereto, or to otherwise record in accordance with its usual practice, the date and amount of each Swing Line Loan and the date and amount of each principal payment hereunder.

This Note is one of the Notes issued pursuant to, and is entitled to the benefits of, the Credit Agreement dated as of July 10, 2001 (which, as it may be amended or modified and in effect from time to time, is herein called the "Agreement"), among the Borrower, the lenders party thereto, including the Swing Line Lender, the LC Issuer, the Swing Line Lender and Bank One, NA, as Agent, to which Agreement reference is hereby made for a statement of the terms and conditions governing this Note, including the terms and conditions under which this Note may or must be prepaid or its maturity date accelerated. This Note is secured pursuant to the Loan Documents and guaranteed pursuant to the Guaranties, all as more specifically described in the Agreement, and reference is made thereto for a statement of the terms and provisions thereof. Capitalized terms used herein and not otherwise defined herein are used with the meanings attributed to them in the Agreement.

FRANKLIN COVEY CO., a Utah Corporation

By: J. SCOTT NIELSEN

Name: J. SCOTT NIELSEN

Title: Senior Vice President - Finance

SCHEDULE OF SWING LINE LOANS AND PAYMENTS OF PRINCIPAL
TO
SWING LINE LOANS NOTE OF FRANKLIN COVEY CO.
DATED____,

Date	Principal Amount of Swing Line Loan	Principal Amount Paid	Interest Paid	Unpaid Balance

EXHIBIT G: FORM OF OPINION OF COUNSEL TO BORROWER AND GUARANTORS

_____, ____

The Agent and the Lenders who are parties to the Credit Agreement described below.

Gentlemen/Ladies:

We are counsel for FRANKLIN COVEY CO., a Utah corporation (the "Borrower"), and each of the Initial Guarantors under (and as the term "Initial Guarantors" and other capitalized terms used herein and not otherwise defined herein are defined in) that certain Credit Agreement dated as of July 10, 2001 among the Borrower, Bank One, NA ("Bank One") and the other Lenders from time to time party thereto, Bank One, as the Agent for the Lenders, Bank One, as the LC Issuer, and Zions First National Bank, as the Swing Line Lender, and have represented the Borrower and the Initial Guarantors (collectively and severally, the "Credit Parties") in connection with its execution and delivery of the Credit Agreement and the other Loan Documents and providing for Revolving Loans and Facility LCs in an aggregate principal amount not exceeding $70,000,000 at any one time outstanding and a Term Loan in an amount not to exceed $30,000,000. All capitalized terms used in this opinion and not otherwise defined herein shall have the meanings attributed to them in the Agreement.

We have examined each of the Credit Parties' **[describe constitutive documents of each of the Credit Parties and appropriate evidence of authority to enter into the transaction]**, the Loan Documents and such other matters of fact and law which we deem necessary in order to render this opinion. Based upon the foregoing, it is our opinion that:

l. Each of the Borrower and its Subsidiaries is a corporation, partnership or limited liability company duly and properly incorporated or organized, as the case may be, validly existing and (to the extent such concept applies to such entity) in good standing under the laws of its jurisdiction of incorporation or organization and has all requisite authority to conduct its business in each jurisdiction in which its business is conducted.

2. The execution and delivery by each of the Credit Parties of the Loan Documents to which it is a party and the performance by such Credit Party of its obligations thereunder have been duly authorized by proper corporate proceedings on the part of such Credit Party and will not:

(a) require any consent of such Credit Party's shareholders or members (other than any such consent as has already been given and remains in full force and effect);

(b) violate (i) any law, rule, regulation, order, writ, judgment, injunction, decree or award binding on the Borrower or any of its Subsidiaries or (ii) the Borrower's or any Subsidiary's articles or certificate of incorporation, partnership agreement, certificate of partnership, articles or certificate of organization, by-laws, or operating or other management agreement, as the case may be, or (iii) the provisions of any indenture, instrument or agreement to which the Borrower or any of its Subsidiaries is a party or is subject, or by which it, or its Property, is bound, or conflict with or constitute a default thereunder; or

(c) result in, or require, the creation or imposition of any Lien in, of or on the Property of the Borrower or a Subsidiary pursuant to the terms of any indenture, instrument or agreement binding upon the Borrower or any of its Subsidiaries (other than Liens created in favor of the Agent for the benefit of the Credit Providers under the Loan Documents).

3. The Loan Documents to which each of the Credit Parties is a party have been duly executed and delivered by such Credit Party and constitute legal, valid and binding obligations of such Credit Party enforceable against such Credit Party in accordance with their terms except to the extent the enforcement thereof may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and subject also to the availability of equitable remedies if equitable remedies are sought.

4. There is no litigation, arbitration, governmental investigation, proceeding or inquiry pending or, to the best of our knowledge after due inquiry, threatened against the Borrower or any of its Subsidiaries which, if adversely determined, could reasonably be expected to have a Material Adverse Effect.

5. No order, consent, adjudication, approval, license, authorization, or validation of, or filing, recording or registration with, or exemption by, or other action in respect of any governmental or public body or authority, or any subdivision thereof, which has not been obtained by the Borrower or any of its Subsidiaries, is required to be obtained by any of the Credit Parties in connection with the execution and delivery of the Loan Documents to which it is party, the borrowings under the Credit Agreement, the payment and performance by such Credit Party of its obligations under the Loan Documents to which it is party, or the legality, validity, binding effect or enforceability of any of the Loan Documents.

6. The provisions of the Loan Documents are sufficient to create in favor of the Agent for the benefit of the Credit Providers, a security interest in all right, title and interest of the Credit Parties executing such Loan Documents in those items and types of collateral described in the Loan Documents in which a security interest may be created under Article 9 of the Uniform Commercial Code as in effect on the date hereof in all applicable jurisdictions. Financing statements on Form UCC-1's have been duly executed by each of the Credit Parties and have been duly filed in each filing office indicated in Exhibit A hereto under the Uniform Commercial Code in effect in each state in which said filing offices are located. The description of the collateral set forth in said financing statements is sufficient to perfect a security interest in the items and types of collateral described therein in which a security interest may be perfected by the filing of a financing statement under the Uniform Commercial Code as in effect in such states. Such filings are sufficient to perfect the security interest created by the Loan Documents in all right, title and interest of the Credit Parties in those items and types of collateral described in the Loan Documents in which a security interest may be perfected by the filing of a financing statement under the Uniform Commercial Code in such states, except that we express no opinion as to personal property affixed to real property in such manner as to become a fixture under the laws of any state in which the collateral may be located and we call your attention to the fact that the security interest granted under the Loan Documents in certain of such collateral may not be perfected by filing financing statements under the Uniform Commercial Code.

6. This opinion may be relied upon by the Agent, the LC Issuer, the Swing Line Lender, the Lenders and their participants, assignees and other transferees.

Very truly yours,

EXHIBIT H: FORM OF MONEY TRANSFER INSTRUCTIONS

To Bank One, NA,
as Agent (the "Agent") under the Credit Agreement
Described Below.

Re: Credit Agreement, dated as of July 10, 2001 (as the same may be amended or modified, the "Credit Agreement"), among Franklin Covey Co. (the "Borrower"), the Lenders named therein and the Agent. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned thereto in the Credit Agreement.

The Agent is specifically authorized and directed to act upon the following standing money transfer instructions with respect to the proceeds of Loans or other extensions of credit from time to time until receipt by the Agent of a specific written revocation of such instructions by the Borrower, *provided, however,* that the Agent may otherwise transfer funds as hereafter directed in writing by the Borrower in accordance with Section 13.1 of the Credit Agreement or based on any telephonic notice made in accordance with Section 2.14 of the Credit Agreement.

Facility Identification Number(s):	8998248
Customer/Account Name:	Franklin Covey Co.
Transfer Funds To:	Zions First National Bank--Commercial Banking Division 10 E. South Temple, Suite 200 Salt Lake City, Utah 84133
For Account No.	024-17362-7
Reference/Attention To	Kathy Stark/ Jim C. Stanchfield
Authorized Officer (Customer Representative)	Date
(Please Print)	Signature
Bank Officer Name	Date
(Please Print)	Signature

(Deliver Completed Form to Credit Support Staff For Immediate Processing)

EXHIBIT I: FORM OF ASSIGNMENT AGREEMENT

This Assignment Agreement (this "Assignment Agreement") between _____(the "Assignor") and _____(the "Assignee") is dated as of ____, 20__. The parties hereto agree as follows:

1. PRELIMINARY STATEMENT. The Assignor is a party to a Credit Agreement (which, as it may be amended, modified, renewed or extended from time to time is herein called the "Credit Agreement") described in Item 1 of Schedule 1 attached hereto ("Schedule 1"). Capitalized terms used herein and not otherwise defined herein shall have the meanings attributed to them in the Credit Agreement.

2. ASSIGNMENT AND ASSUMPTION. The Assignor hereby sells and assigns to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, an interest in and to the Assignor's rights and obligations under the Credit Agreement and the other Loan Documents, such that after giving effect to such assignment the Assignee shall have purchased pursuant to this Assignment Agreement the percentage interest specified in Item 3 of Schedule 1 of all outstanding rights and obligations under the Credit Agreement and the other Loan Documents relating to the facilities listed in Item 3 of Schedule 1. The aggregate Commitment (or Loans, if the applicable Commitment has been terminated) purchased by the Assignee hereunder is set forth in Item 4 of Schedule 1.

3. EFFECTIVE DATE. The effective date of this Assignment Agreement (the "Effective Date") shall be the later of the date specified in Item 5 of Schedule 1 or two Business Days (or such shorter period agreed to by the Agent) after this Assignment Agreement, together with any consents required under the Credit Agreement, are delivered to the Agent. In no event will the Effective Date occur if the payments required to be made by the Assignee to the Assignor on the Effective Date are not made on the proposed Effective Date.

4. PAYMENT OBLIGATIONS. In consideration for the sale and assignment of Loans hereunder, the Assignee shall pay the Assignor, on the Effective Date, the amount agreed to by the Assignor and the Assignee. On and after the Effective Date, the Assignee shall be entitled to receive from the Agent all payments of principal, interest and fees with respect to the interest assigned hereby. The Assignee will promptly remit to the Assignor any interest on Loans and fees received from the Agent which relate to the portion of the Commitment or Loans assigned to the Assignee hereunder for periods prior to the Effective Date and not previously paid by the Assignee to the Assignor. In the event that either party hereto receives any payment to which the other party hereto is entitled under this Assignment Agreement, then the party receiving such amount shall promptly remit it to the other party hereto.

5. RECORDATION FEE. The Assignor and Assignee each agree to pay one-half of the recordation fee required to be paid to the Agent in connection with this Assignment Agreement unless otherwise specified in Item 6 of Schedule 1.

6. REPRESENTATIONS OF THE ASSIGNOR; LIMITATIONS ON THE ASSIGNOR'S LIABILITY. The Assignor represents and warrants that (i) it is the legal and beneficial owner of the interest being assigned by it hereunder, (ii) such interest is free and clear of any adverse claim created by the Assignor and (iii) the execution and delivery of this Assignment Agreement by the Assignor is duly authorized. It is understood and agreed that the assignment and assumption hereunder are made without recourse to the Assignor and that the Assignor makes no other representation or warranty of any kind to the Assignee. Neither the Assignor nor any of its officers, directors, employees, agents or attorneys shall be responsible for (i) the due execution, legality, validity, enforceability, genuineness, sufficiency or collectability of any Loan Document, including without limitation, documents granting the Assignor and the other Lenders a security interest in assets of the Borrower or any guarantor, (ii) any representation, warranty or statement made in or in connection with any of the Loan Documents, (iii) the financial condition or creditworthiness of the Borrower or any guarantor, (iv) the performance of or compliance with any of the terms or provisions of any of the Loan Documents, (v) inspecting any of the property, books or records of the Borrower, (vi) the validity, enforceability, perfection, priority, condition, value or sufficiency of any collateral securing or purporting to secure the Loans or (vii) any mistake, error of judgment, or action taken or omitted to be taken in connection with the Loans or the Loan Documents.

7. REPRESENTATIONS AND UNDERTAKINGS OF THE ASSIGNEE. The Assignee (i) confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements requested by the Assignee and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment Agreement, (ii) agrees that it will, independently and without reliance upon the Agent, the Assignor or any other Lender and based on such documents and information at it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, (iii) appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under the Loan Documents as are delegated to the Agent by the terms thereof, together with such powers as are reasonably incidental thereto, (iv) confirms that the execution and delivery of this Assignment Agreement by the Assignee is duly authorized, (v) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender, (vi) agrees that its payment instructions and notice instructions are as set forth in the attachment to Schedule 1, (vii) confirms that none of the funds, monies, assets or other consideration being used to make the purchase and assumption hereunder are "plan assets" as defined under ERISA and that its rights, benefits and interests in and under the Loan Documents will not be "plan assets" under ERISA, (viii) agrees to indemnify and hold the Assignor harmless against all losses, costs and expenses (including, without limitation, reasonable attorneys' fees) and liabilities incurred by the Assignor in connection with or arising in any manner from the Assignee's non-performance of the obligations assumed under this Assignment Agreement, and (ix) if applicable, attaches the forms prescribed by the Internal Revenue Service of the United States certifying that the Assignee is entitled to receive payments under the Loan Documents without deduction or withholding of any United States federal income taxes.

8. GOVERNING LAW. This Assignment Agreement shall be governed by the internal law, and not the law of conflicts, of the State of Illinois.

9. NOTICES. Notices shall be given under this Assignment Agreement in the manner set forth in the Credit Agreement. For the purpose hereof, the addresses of the parties hereto (until notice of a change is delivered) shall be the address set forth in the attachment to Schedule 1.

10. COUNTERPARTS; DELIVERY BY FACSIMILE. This Assignment Agreement may be executed in counterparts. Transmission by facsimile of an executed counterpart of this Assignment Agreement shall be deemed to constitute due and sufficient delivery of such counterpart and such facsimile shall be deemed to be an original counterpart of this Assignment Agreement.

IN WITNESS WHEREOF, the duly authorized officers of the parties hereto have executed this Assignment Agreement by executing Schedule 1 hereto as of the date first above written.

SCHEDULE 1

to Assignment Agreement

1. Description and Date of Credit Agreement:

2. Date of Assignment Agreement: , 200_

3. Amounts (As of Date of Item 2 above):

	Facility 1*	Facility 2*	Facility 3*	Facility 4*
a. Assignee's percentage of each Facility purchased under the Assignment Agreement**	%	%	%	%
b. Amount of each Facility purchased under the Assignment Agreement***	$	$	$	$

4. Assignee's Commitment (or Loans with respect to terminated Commitments) purchased hereunder: $

5. Proposed Effective Date:

6. Non-standard Recordation Fee Arrangement: N/A*** [Assignor/Assignee to pay 100% of fee] [Fee waived by Agent]

Accepted and Agreed:

[NAME OF ASSIGNOR]	[NAME OF ASSIGNEE]
By:	By:
Title:	Title:

ACCEPTED AND CONSENTED TO**** BY [NAME OF BORROWER]	ACCEPTED AND CONSENTED TO**** BY [NAME OF AGENT]
By:	By:
Title:	Title:

* Insert specific facility names per Credit Agreement
** Percentage taken to 10 decimal places
*** If fee is split 50-50, pick N/A as option
**** Delete if not required by Credit Agreement

Attachment to SCHEDULE 1 to ASSIGNMENT AGREEMENT

ADMINISTRATIVE INFORMATION SHEET

Attach Assignor's Administrative Information Sheet, which must include notice addresses for the Assignor and the Assignee (Sample form shown below)

ASSIGNOR INFORMATION

Contact:

Name: Telephone No.:

Fax No.: Telex No.:

Answerback:

Payment Information:

Name & ABA # of Destination Bank:

Account Name & Number for Wire Transfer:

Other Instructions:

Address for Notices for Assignor:

ASSIGNEE INFORMATION

Credit Contact:

Name: _____ Telephone No.: _____

Fax No.: _____ Telex No.: _____

Answerback: _____

Key Operations Contacts:

Booking Installation: _____ Booking Installation: _____

Name: _____ Name: _____

Telephone No.: _____ Telephone No.: _____

Fax No.: _____ Fax No.: _____

Telex No.: _____ Telex No.: _____

Answerback: _____ Answerback: _____

Payment Information:

Name & ABA # of Destination Bank: _____

Account Name & Number for Wire Transfer: _____

Other Instructions: _____

Address for Notices for Assignee: _____

BANK ONE INFORMATION

Assignee will be called promptly upon receipt of the signed agreement.

Initial Funding Contact: Subsequent Operations Contact:

Name: _____ Name: _____

Telephone No.: (312) _____ Telephone No.: (312) _____

Fax No.: (312) _____ Fax No.: (312) _____

Bank One Telex No.: 190201 (Answerback: FNBC UT)

Initial Funding Standards:

Libor - Fund 2 days after rates are set.

Bank One Wire Instructions: Bank One, NA, ABA # 071000013

LS2 Incoming Account # 481152860000
Ref:_____

Address for Notices for Bank One: 1 Bank One Plaza, Chicago, IL 60670

Attn: Agency Compliance Division, Suite IL1-0353
Fax No. (312) 732-2038 or (312) 732-4339

SCHEDULE 5.7: LITIGATION DISCLOSURE

NONE.

SCHEDULE 5.8: SUBSIDIARIES, OWNERSHIP, INVESTMENT, ETC.

SUBSIDIARY NAME	JURISDICTION OF ORGANIZATION	BORROWER'S PERCENTAGE OWNERSHIP	NAME AND PERCENTAGE OWNERSHIP OF OTHER OWNERS
DOMESTIC			
Franklin Covey Argentina, Inc.	Utah	100%	
Franklin Covey Asia, Inc.	Utah	100%	
Franklin Covey Brazil, Inc.	Utah	100%	
Franklin Covey Catalog Sales, Inc.	Utah	100%	
Franklin Covey Client Sales, Inc.	Utah	100%	
Franklin Covey Coaching, LLC	Delaware		Franklin Covey Client Sales, Inc. - 50% AMS - 50%
Franklin Covey International, Inc.	Utah	100%	
Franklin Covey Marketing,	Utah	0%	Franklin Covey Services, L.L.C. - 99%

Ltd.			Franklin Development Corporation - 1%
Franklin Covey Mexico, Inc.	Utah	100%	
Franklin Covey Printing, Inc.	Utah	100%	
Franklin Covey Product Sales, Inc.	Utah	100%	
Franklin Covey Services, L.L.C.	Utah	0%	Franklin Covey Client Sales, Inc. - 99% Franklin Development Corporation - 1%
Franklin Covey Travel, Inc.	Utah	100%	
Franklin Development Corporation	Utah	100%	
Franklin Planner.com, Inc.	Utah	90%	Michael Barlow - 5%; Scot Robinson - 5%
McCulley/Cuppan LLC	Utah	100%	
Premier Agendas, Inc.	Washington	100%	
FOREIGN			
Franklin Covey Brasil, Ltda.	Brazil	100%	
Franklin Covey Canada, Ltd.	Canada	100%	
Franklin Covey Cayman Islands, Ltd.	British West Indies	100%	
Franklin Covey de Mexico S. de R.L. de C.V.	Mexico	100%	
Franklin Covey Europe, Ltd.	United Kingdom	100%	
Franklin Covey France S.A.R.L.	France (applied)	100%	
Franklin Covey Germany G.m.b.H.	Germany	100%	
Franklin Covey Japan Co. Ltd.	Japan	100%	
Franklin Covey Ltd.	New Zealand	100%	
Franklin Covey Middle East, WLL	Bahrain	100%	
Franklin Covey Netherlands B.V.	Netherlands	100%	
Franklin Covey Pty Ltd.	Australia	100%	
P.E.A.K.	Canada	0%	Premier Agendas, Inc. - 100%
Premier School Agendas, Ltd.	Canada	0%	Franklin Covey Canada, Ltd. - 100%

SCHEDULE 5.14: EXISTING LIENS

REAL PROPERTY LIENS			
	Property --- Description ---	Address/Property Location ---	Lien Holder ---
1.	Hancock Building, SL Campus	2620 S. Decker Lake Blvd., SLC, UT	United of Omaha (Loan # 80-002021-5); CB Richards Ellis (Purchase Agreement dated June 26, 2001); Electronic Data Systems Corporation (Lease dated 6/29/01)
	Madison Building, SL Campus	2580 S. Decker Lake Blvd., SLC, UT	
2.	Patrick Henry Building, SL Campus	2607 S. Decker Lake Blvd., SLC, UT	United of Omaha (Loan # 80-001999-8); Approx. 1,000 square feet under Lease w/ Franklin Covey Coaching, LLC for mail room (which will be moved to Item 1 above in a few months)
3.	Washington/Jeff Building	2200nWest Parkway Blvd., SLC, UT	Zions Bank (Loan Acct #3424774-4001)
4.	Franklin Building, SL Campus (approx. 27,903 square feet	2650 S. Decker Lake Blvd., SLC, UT	Franklin Covey Coaching, LLC (Lease dated 9/1/00)
5.	Riverwoods I	360 W. 4800 N., Provo, UT	MyFamily.com (Sublease dated 2/18/00)
	Riverwoods II	466 W. 4800 N., Provo, UT	MyFamily.com (Sublease dated 2/18/00)
6.	Publishers Press	1900 West 2300 South, SLC, UT	Publishers Press, Inc. (Lease dated 2/28/00)
7.	Raw Land	2097 West Parkway Blvd., SLC, UT	Marlin Shelley (Purchase Agreement dated 5/9/01)
PERSONAL PROPERTY LIENS			
	Property Description ---	Address/Property Location ---	Lien Holder ---
1.	All accounts, chattel paper, general	Premier Business Addresses	Bank of America, N.A.

	intangibles, inventory and equipment of Premier Agendas, Inc.	
	2000 Kentucky Ave., Bellingham, WA	
	2007 Iowa Street, Bellingham, WA	
	1600 Kentucky St., Bellingham, WA	
	1936 Grant St., Bellingham, WA	
	1919 Grant St., Bellingham, WA	
	2001 Iowa St., Bellingham, WA	
	2081 Business Center Dr., #180, Irvine, CA	
	5440 Beaumont Business Center Blvd., #635, Tampa, FL	
	W. Eighth Street, #320, Bloomington, IN	
	616 28th St., #11, Grand Rapids, MI	
	490 Center Rd., East Aurora, NY	
	2108 DeKalb Pike, East Norriton, PA	
	16815 Royal Crest, #150, Houston, TX	
	Premier Print Partners ----------	
	Carr Printing, Bountiful Utah	
	Guest Printing Co., Inc., Athens, GA	
	Harris Litho, Stone Mountain, GA	
	Heuss Printing, Inc., Ames, IA	
	Knight Printing, Fargo, ND	
	Lewiscolor, Statesboro, GA	
	Premier Bindery, BC, Langley, BC	
	Premier Graphics, Bellingham, WA	
	Premier Impressions, Grimsby, ON	
	Premier Printing, Winnepeg, MB	
	PrintComm, Flint, MI	
	Printing Enterprises, New Brighton, MN	
	Rome Printing Co., Rome, GA	
	Sentinel Printing, Inc., St. Cloud, MN	
	Spangler Printers, Kansas City, KS	
2. Warehouse/distr equipment	2620iS. Decker Lake Blvd., SLC, UT	Electronic Data Systems Corporation (Pursuant to Services Agreement effective 6/30/01, EDS has the right to use said property, but has no ownership or control over the property)
	2580 S. Decker Lake Blvd., SLC, UT	
3. Printing Press	2000 Kentucky Avenue, Bellingham, WA	Concord Bank
4. Printing Press	2000 Kentucky Avenue, Bellingham, WA	Frontier Bank
5. Franklin Covey and one or more of its subsidiaries has entered into license agreements with individuals and entities for the use of software, source code, and intellectual property used in the operation in the ordinary course of their businesses.		
6. Franklin Covey and its subsidiaries typically take title of ownership upon receipt of goods, with payment for the same made 30-60 days thereafter. Liens may exist on certain items of inventory until such time as payment in full is made.		
7. One or more of Franklin Covey's or one of its subsidiary's real property leases may include a provision which grants a lien to the landlord against Franklin Covey's or its subsidiary's inventory, equipment and personal property located on the leased premises.		
CAPITAL LEASE LIENS		
1. First Security Leasing Company - Lease no. 002-3003253 for office equipment; $255,228 outstanding as of May 26, 2001		
2. First Security Leasing Company - Lease no. 002-3003039 for office equipment; $263,296 outstanding as of May 26, 2001		
OTHER LIENS		
1. Liens may exist pursuant to the contingency obligations set forth on Schedule 6.22 to the Credit Agreement, which by this reference is incorporated herein.		

SCHEDULE 6.11: EXISTING INDEBTEDNESS (OTHER THAN CONTINGENT OBLIGATIONS)

SCHEDULE 6.11

EXISTING INDEBTEDNESS

FRANKLIN COVEY

CONSOLIDATED DEBT SCHEDULE

	BALANCE AUG 31, 2000	ADDITIONS/ CURRENCY	PAYMENTS/ CURRENCY	ENDING BAL. MAY 26, 2001	Atch #	Notes

FRANKLIN CORE						
SPORTS CAREERS			(45,499)		A	19,500 paid in Q3
CURRENT PORTION	78,000			32,501		
SPORTS CAREERS			(13,000)			
(Act. 2704)	13,000			-		
ORACLE			(1,679,541)		B	Credit will be adjusted in
SOFTWARECURRENT PORTION	1,679,040			(500)		June
DAYTRACKER.COM				3,000,000		
PURCHASE	3,000,000					
DAYTRACKER.COM			(3,000,000)	0		Amount paid in Q2
PURCHASE (Act. 2702)	3,000,000					
JACK PHILLIPS NOTES PAYABLE (2605)		40,000	(40,000)	0	C	Paid in Q3
TOTAL			(4,778,041)			
	7,770,041	40,000		3,032,000.11		
FRANKLIN DEVELOPMENT CORP						
REPUBLIC MRTG			(63,110)		E	$21,484 paid in Q3
- - HANCOCK	1,618,736			1,555,626		
REPUBLIC MRTG			(17,601)		E	$6,012 paid in Q3
- - PATRICK HENRY	688,651			671,050		
ZIONS LOAN			(211,354)		E	$70,452 paid in Q3
#4001 - FRANK & JEFF	587,062			375,708		
		0	(292,066)	2,602,384		
	2,894,450					
INTERNATIONAL						
LONG TERM DEBT			213		F	
CUR. PORT - Canada	40,801			41,014		
LONG TERM DEBT			(76,619)		F	
- - Canada	956,122			879,503		
UK					F	See 'F' section for note
		53,778		53,778		
TOTAL		53,778	(76,619)	974,295		
	996,923					
PREMIER AGENDAS						
LONG TERM DEBT			(48,937)		G	
- - CURR PORTION	1,685,709			1,636,772		
LONG TERM DEBT			(186,564)		G	
	651,212			464,648		
TOTAL		0	(235,501)	2,101,420		
	2,336,921					
LONG TERM DEBT			(5,382,227)			
TOTALS	13,998,335	93,778		8,710,099		

LINE OF CREDITS	
$17.0* million current line of credit with interest at LIBOR plus 1.5% (8.1% at August 31, 2000), secured by inventory and accounts receivable	1,000,000 11,725,000

*the line of credit will terminate on November 30, 2001, and the outstanding amounts under the line of credit will be paid in full on or before termination

LETTERS OF CREDIT

Beneficiary	Maturity	Face Value
Knoxville Utilities Board	10/7/2001	$ 1,700.00
Airlines Reporting Corporation	3/27/2002	$ 20,000.00
Royal Indemnity Company	1/1/2002	$ 264,000.00
Banca Serafin, S.A.	5/25/2002	$ 50,000.00
TOTAL		$ 335,700.00

CAPITAL LEASES

YEAR ENDING AUGUST 31,	(in thousands)

2001	$592
2002	392
Total future minimum lease payments	984
Less amount representing interest	-64
Present value of future minimum lease payments	920
Less current portion	-540
	$380

*May 26, 2001, total capital lease obligation: $518.

Total assets held by the Company under capital lease arrangements were $4.0 million with accumulated amortization of $2.2 million as of August 31, 2000. Amortization of capital lease assets is included in depreciation and amortization expense in the accompanying consolidated income statements.

SCHEDULE 6.14: EXISTING INVESTMENTS (OTHER THAN SUBSIDIARIES)

Franklin Covey Coaching, L.L.C.

Effective September 1, 2000, Franklin Covey contributed all of its right, title and interest in and to its assets, properties, and rights, that were incorporated in, associated with, integral to or otherwise used primarily in the conduct of Franklin Covey's personal coaching division (the "Business"), including, without limitation, the following:

(a) all accounts and notes receivable set forth on the Closing Balance Sheet;

(b) all office furniture and equipment, computer and telephone equipment, trade fixtures and other equipment, together with all parts, tools and accessories and the like relating thereto;

(c) all inventory and supplies reflected on the Latest Balance Sheet;

(d) all client, customer, and supplier goodwill directly incident to or directly associated with the Business as a going concern, all mailing lists, customer lists, inquiry lists and all other information and data relating to the customers, potential customers, or suppliers of the Business, and all Related Marketing Rights and all trademarks, trade names, service marks, copyrights, computer programs and software (including, without limitation, all data mining and analysis systems and coaching scheduling systems), domain names, web page content, trade secrets, processes, know how, engineering drawings, plans and product specifications, promotional displays and materials, marketing scripts, coaching manuals, and all other proprietary rights and Intellectual Property and any applications related thereto;

(e) all contracts, purchase orders, employment contracts and other agreements;

(f) all assignable business and operating Permits;

(g) all mailing lists, databases and other information concerning past and present customers of the Business, all customer prospects and lead and inquiry lists, and all other data, books, files and records of the Business;

(h) all deposits, refunds, prepaid service payments, and other prepaid assets to the extent reflected on the Latest Balance Sheet; and catalog, packaging, promotional, trade show, advertising and royalty expenses and unbilled charges and credits;

(i) all claims, warranties, chooses of action, causes in action, rights of recovery and rights of set-off relating to the Purchased Assets, the Assumed Liabilities and/or the Business; and

(j) the right to receive and retain mail and other communications relating directly to the Purchased Assets, the Assumed Liabilities and/or the Business.

Conita

Franklin Covey entered into an agreement with Conita Technologies, Inc. ("Conita") on January 30, 2001, for the license, installation and configuration of Conita's proprietary Personal Virtual Assistant ("PVA") software on Franklin Covey's corporate Microsoft Exchange Server, for a total of $344,160.00. The PVA software enables Franklin Covey Associates to access and manipulate personal email, calendar, contact and task information stored on the corporate Exchange Server over the phone.

Further, Franklin Covey provided Conita a bridge loan of $250,000.00 convertible to stock, with a maturity date of June 30, 2001. Conita has requested an extension for repayment of the loan to December 31, 2001. Franklin Covey and Conita are working together to provide the Conita PVA technology to FranklinPlanner.com or Franklin Planner software users.

SCHEDULE 6.22: EXISTING CONTINGENT OBLIGATIONS

Lines of Credit

The amounts outstanding under the Company guaranty of existing lines of credit consisted of the following at August 31, 2000 (in thousands):

	August 31, 2000 Balances	May 26, 2001 Balances
$20.0 million* current line of credit with interest at LIBOR plus 1.5% (8.1% at August 31, 2000), secured by inventory and accounts receivable	11,725	1,000

*as of May 26, 2001, $14.0 million is available under this line of credit.

Capital Leases

Future minimum lease payments for equipment held under capital lease arrangements as of August 31, 2000 were as follows (in thousands):*

YEAR ENDING AUGUST 31,	
2001	$ 592
2002	392
Total future minimum lease payments	984
Less amount representing interest	(64)
Present value of future minimum lease payments	920
Less current portion	(540)
	$ 380

*May 26, 2001, total capital lease obligation: $518.

Total assets held by the Company under capital lease arrangements were $4.0 million with accumulated amortization of $2.2 million as of August 31, 2000. Amortization of capital lease assets is included in depreciation and amortization expense in the accompanying consolidated income statements.

Operating Leases

The Company leases certain retail store and office locations under noncancelable operating lease agreements with remaining terms of one to ten years. The following table summarizes future minimum lease payments under operating leases at August 31, 2000 (in thousands):

YEAR ENDING AUGUST 31,	
2001	$ 12,702
2002	11,032
2003	10,231
2004	8,672
2005	5,610
Thereafter	13,980
	$ 62,227

Total rental expense for leases under operating lease agreements was $17.4 million, $17.6 million, and $16.8 million, for the years ended August 31, 2000, 1999, and 1998, respectively.

As part of its restructuring plan, the Company exited certain leased office space in Provo, Utah during fiscal 2000. In connection with leaving the office space, the Company obtained a noncancelable sublease agreement for the majority of the Company's remaining lease term on the buildings. Future minimum lease payments due to the Company from the subleasee as of August 31, 2000 were as follows:

YEAR ENDING AUGUST 31,	
2001	$ 1,792
2002	1,845
2003	1,901
2004	1,958
2005	2,017
Thereafter	3,309
	$ 12,822

Purchase Commitments

At August 31, 2000, the Company had contracts with various builders, totaling $3.2 million, for construction related to new and remodeled retail stores.

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

Pursuant to the EDS Information Technology Services Agreement (which encompasses the outsourcing of [1] Information Technology Services; [2] Call Center Services, and [3] Distribution and Warehouse Services, including EDS' lease of approximately 406,000 square feet of the Company's warehouse and distribution facilities) (the "IT Agreement") Franklin Covey has certain obligations related to termination of the IT Agreement. As to termination for convenience of either the Information Technology Services or the Call Center Services, Franklin Covey and EDS have agreed to termination fees based on the year in which Franklin Covey terminates the IT Agreement or any portion thereof. However, in the event that Franklin Covey encounters a significant change in its business such that Franklin Covey no longer requires the delivery of Distribution and Warehouse Services, EDS and Franklin Covey have agreed to negotiate in good faith an alternate services agreement, for alternate services sufficient to replace, for EDS, service fees related to the Distribution and Warehouse Services. In the event that EDS and Franklin Covey are unable to negotiate an alternate services agreement, EDS and Franklin Covey have agreed to negotiate a termination fee that covers EDS' unamortized costs and shutdown expenses related to the Distribution and Warehouse Services and takes into account, among other factors, EDS' lost profits, and remaining lease and sublease expenses for the Salt Lake City distribution facility.

Legal Matters

The Company is the subject of certain legal actions, which it considers routine to its business activities. As of August 31, 2000, management believes that, after discussion with its legal counsel, any potential liability to the Company under such actions will not materially affect the Company's financial position or results of operations.

Management Common Stock Loan Program

During fiscal 2000, the Company announced the implementation of an incentive-based compensation program that includes a loan program from external lenders to certain managers for the purpose of purchasing shares of the Company's common stock. The program gives management of the Company the opportunity to purchase shares of the Company's common stock on the open market, and from shares purchased by the Company, by borrowing on a full-recourse basis from the external lenders. The Company has facilitated the loans by providing a guarantee to the lenders. The program will total approximately $33.0 million and the Company has facilitated the purchase of open-market shares to ensure compliance with appropriate SEC trading rules and regulations. As of August 31, 2000, the Company had facilitated the purchase of 3,559,000 shares at a cost of $30.00 million for the loan program.

PURCHASE AGREEMENT

BY AND AMONG

FRANKLIN COVEY CO.

FRANKLIN COVEY CANADA LTD.

SCHOOL SPECIALTY, INC.

AND

3956831 CANADA INC.

NOVEMBER 13, 2001

PURCHASE AGREEMENT

THIS PURCHASE AGREEMENT (the "Agreement") is entered into effective as of November 13, 2001, by and among Franklin Covey Co., a Utah corporation ("FCC"), Franklin Covey Canada, Ltd., an Ontario corporation ("FC Canada") (FCC and FC Canada are collectively referred to herein as the "Sellers" and sometimes individually referred to herein as a "Seller") and School Specialty, Inc., a Wisconsin corporation or a subsidiary thereof ("SSI"), and 3956831 Canada Inc., a Canadian federal corporation ("SSI Canada") (SSI and SSI Canada are collectively referred to as the "Buyers" and sometimes individually referred to herein as a "Buyer"). For the purpose of this Agreement, Premier Agendas, Inc., a Washington corporation shall be known as "Premier Agendas" and Premier School Agendas Ltd. Agenda Scolaire Premier Ltee, a corporation incorporated under the Canada Business Corporations Act and registered to do business in British Columbia shall be known as "PSA",

RECITALS

WHEREAS, FCC owns all of the issued and outstanding shares of capital stock of Premier Agendas (the "Premier Agendas Shares"), and FC Canada owns all of the issued and outstanding capital stock of PSA (the "PSA Shares") (the Premier Agendas Shares and the PSA Shares are collectively referred to as the "Shares"); and

WHEREAS, SSI desires to purchase from FCC all of the Premier Agendas Shares and SSI Canada wishes to purchase from FC Canada all of the PSA shares; and

WHEREAS, in order to induce SSI and SSI Canada to purchase the Premier Agenda Shares and the PSA Shares on the terms and conditions set forth in this Agreement, the Sellers are willing to make the representations, warranties, covenants and indemnities set forth herein; and

WHEREAS, in order to induce Sellers to sell the Premier Agenda Shares and the PSA Shares, Buyers are willing to make the representations, warranties and covenants set forth herein.

AGREEMENT

NOW THEREFORE, in consideration of the respective representations, warranties and covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

SALE OF SHARES; CLOSING

1.1 PURCHASE AND SALE OF SHARES. Subject to the terms and conditions of this Agreement, at the Closing, certain of the Sellers shall sell, transfer and deliver to Buyers, and the Buyers will purchase from such Sellers the Shares as follows:

(a) FCC shall sell, transfer and deliver to SSI and SSI shall purchase from FCC, all of the Premier Agendas Shares.

(b) FC Canada shall sell, transfer and deliver to SSI Canada and SSI Canada shall purchase from FC Canada, all of the PSA Shares.

1.2 PURCHASE PRICE. The aggregate purchase price (the "Purchase Price") for the Shares shall be the following:

(a) One Hundred Fifty-Two Million Five Hundred Thousand Dollars (US $152,500,000) (the "Purchase Price"), which shall be allocated between Premier Agendas and PSA as set forth on Schedule 1.2(a) (the "Allocation Schedule"). SSI shall pay to FCC that amount as described on Schedule 1.2(a) and SSI Canada shall pay to FC Canada that amount as described on Schedule 1.2(a).

(b) All references to $ or money herein shall be to United States dollars. If, for any purpose, it is or becomes necessary to calculate at any time the United States currency equivalent of any amount expressed or determined in Canadian currency, the United States currency equivalent of such Canadian currency amount shall be determined at the spot rate at which Canadian currency can be exchanged into United States currency as set out in the Money and Investing Sections of The Wall Street Journal. The spot rate shall be determined as of the Transaction Date.

Buyers shall be jointly and severally liable for payments described in paragraph (a) above.

1.3 CLOSING. The purchase and sale (the "Closing") provided for in this Agreement will take place at the headquarters of FCC located in Salt Lake City, Utah, upon satisfaction of all conditions of Closing in Articles IV and V, but no later than December 21, 2001. All capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to them in Article X hereof.

1.4 CLOSING OBLIGATIONS. At the Closing::

(a) FCC, or FCC Canada, as applicable, will deliver to Buyers:

(i) certificates representing all of the Premier Agendas Shares and the PSA Shares duly endorsed for transfer (or accompanied by duly executed stock powers), to SSI and SSI Canada, respectively;

(ii) Releases executed by each of the Sellers releasing any claim of such Seller, other than those created by this Agreement, or arising under other contracts between the parties, against Premier Agendas or PSA (collectively, the “Sellers’ Releases”);

(iii) a certificate executed by the President of each of Premier Agendas and PSA representing and warranting to Buyers that each of the representations and warranties made by the Acquired Companies in this Agreement (other than the individual representations and warranties made by the Sellers in Sections 2.28 through 2.30 hereof) was accurate in all material respects as of the date of this Agreement and is accurate as of the Closing Date as if made on the Closing Date (giving full effect to any supplements to the Disclosure Letter that were delivered by the Sellers and the Acquired Companies to Buyers prior to the Closing Date under the terms of Section 6.8); and

(iv) such other documents as are required to be provided pursuant to Articles IV and VI or as reasonably requested by Buyers to close the transactions contemplated hereby.

(b) Buyer will deliver to Sellers:

(i) the amounts, as set forth in the Allocation Schedule, to be paid at the Closing to FCC and FC Canada, by bank cashier’s, certified check or by wire transfer to accounts specified by FCC and FC Canada and/or the Working Capital Note as provided in Sections 1.5 hereof;

(ii) a certificate executed by an authorized officer of Buyers to the effect that each of Buyers’ representations and warranties in this Agreement was accurate in all material respects as of the date of this Agreement and is accurate in all material respects as of the Closing Date as if made on the Closing Date;

(iii) such other documents as are required to be provided pursuant to Articles V and VII or as reasonably requested by Sellers to close the transactions contemplated hereby.

1.5 WORKING CAPITAL PAYMENTS. In addition to the amounts due under Section 1.2 (a) herein, the Sellers, operating the business of the Acquired Companies in the Ordinary Course of Business, shall have the right (i) up through and including the Closing Date, to withdraw all cash in accounts of the Acquired Companies, and (ii) on the Closing Date, to withdraw the lesser of (a) Twelve Million Nine Hundred Thousand Dollars ($12,900,000.00) or (b) the amount of the Combined Working Capital, determined in accordance with GAAP, as of the Closing Date (the “Working Capital Payment”). In no event shall the Acquired Companies’ line of credit balance exceed $0.00 as of the Closing Date and in no event shall the Combined Working Capital be less than $0.00 as of the Closing Date. The amount by which the Working Capital Payment exceeds the cash balance of the Acquired Companies as of the Closing Date, if any, shall then be tendered from SSI to FCC in the form of a promissory note dated as of the Closing Date, which shall be due six (6) months from the Closing Date and which shall bear an interest rate of two percent (2%) plus LIBOR as of the Closing Date (the “Working Capital Note”). All interest and principal under this note shall be due upon its maturity. All other payments and distributions not defined in this Section 1.5 or elsewhere in this Agreement made from the Acquired Companies to the Sellers from the date of this Agreement through the Closing Date shall be prohibited.

1.6 BALANCE SHEET.

(a) Within fifteen (15) days following the Closing Date, Sellers shall prepare and deliver to Buyers a combined balance sheet effective as of the Closing Date (the "Closing Balance Sheet"), and a related combined statement of income for the period beginning September 1, 2001 and ending as of the Closing Date, of the Acquired Companies, showing the final status of all assets and liabilities (including Combined Working Capital) as of the Closing Date and the results of its operations for the periods then ended, all prepared in accordance with GAAP. The Closing Balance Sheet shall be reviewed by the Buyers and, if the Buyers have any objections to the Closing Balance Sheet, Buyers and Sellers shall work reasonably and in good faith to resolve such objections.

(b) If Buyers and Sellers are not able to resolve their disagreements and objections with respect to the Closing Balance Sheet within thirty (30) days after Sellers deliver the Closing Balance Sheet to Buyers, then the issues in dispute will be submitted to the Denver, Colorado office of Arthur Andersen, LLP independent certified public accountants (the "Accountants") for resolution. If issues in dispute are submitted to the Accountants for resolution, (i) each party will furnish to the Accountants such work papers and other documents and information relating to the disputed issues as the Accountants may request and are available to that party or its Subsidiaries (or its independent public accountants), and will

be afforded the opportunity to present to the Accountants any material relating to the determination and to discuss the determination with the Accountants; and (ii) in addition to the material submitted in subparagraph (i) above, the Accountants shall consider compliance by the Sellers in the operation of the businesses of the Acquired Companies under the standard of the Ordinary Course of Business. The determination by the Accountants, as set forth in a notice delivered to both parties by the Accountants, will be binding and conclusive on the parties. Buyers and Sellers shall each bear 50% of the fees of the Accountants for such determination.

(c) Upon finalization of the Closing Balance Sheet and the calculation of the Combined Working Capital of the Acquired Companies in accordance with Sections 1.6(a) or 1.6(b), any adjustment to the Combined Working Capital which would have an effect on the amount of the Working Capital Payment, should be reflected by the revision of the amount of the Working Capital Note including the interest accruals thereon. In the event of such a revision, the Working Capital Note issued as of the Closing Date shall be retired and replaced in its entirety by a Working Capital Note in the amount as determined under this Section 1.6(c) within ten (10) days after receiving the Accountants' binding determination.

1.7 [This Section is intentionally deleted.]

1.8 [This Section is intentionally deleted.]

1.9 ALLOCATION. FCC agrees that the Purchase Price and Working Capital Note shall be made to FCC and FC Canada allocated between FCC and FC Canada in accordance with the Allocation Schedule, without regard to specific adjustments to the financial statements of individual Acquired Companies.

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF SELLERS

Except as set forth in the Disclosure Letter pursuant to Section 9.5, FCC and FC Canada, jointly and severally, represent and warrant to SSI with respect to each representation and warranty set forth below which is applicable to Premier Agendas as follows; FCC and FC Canada, jointly and severally, represents and warrants to SSI Canada with respect to each representation and warranty set forth below which is applicable to PSA as follows; and each Seller hereby represents and warrants as to itself with respect to the representations and warranties set forth in Sections 2.28 through 2.30, as follows:

2.1 ORGANIZATION AND GOOD STANDING; SUBSIDIARIES; RESIDENCE.

(a) Part 2.1(a) of the Disclosure Letter contains a complete and accurate list for each of the Acquired Companies of such entity's name, its jurisdiction of incorporation, other jurisdictions in which it is authorized to do business, and its capitalization (including the identity of each stockholder and the number of shares held by each). Each Acquired Company is a corporation duly organized, validly existing, and in good standing under the laws of its jurisdiction of organization, with full corporate power and authority to conduct its business as it is now being conducted, to own or use the properties and assets that it purports to own or use, and to perform all its obligations under Applicable Contracts. Each Acquired Company is duly qualified to do business and is in good standing under the laws of each state, province or other jurisdiction in which either the ownership or use of the properties owned, leased or used by it, or the nature of the activities conducted by it, requires such qualification, except where the failure to so qualify would not have a Material Adverse Effect on such Acquired Company or its operations.

(b) Sellers have delivered to Buyers copies of the Organizational Documents of each Acquired Company, as currently in effect on or prior to the date hereof.

(c) Other than as listed on Part 2.1(c) of the Disclosure Letter, the Acquired Companies (i) have no Subsidiaries, (ii) do not own or control (directly or indirectly) any capital stock, bonds or other securities of, and do not have any proprietary interest in, any other corporation, general or limited partnership, firm, association or business organization, entity or enterprise, and (iii) do not control (directly or indirectly) the management or policies of any other corporation, partnership, firm, association or business organization, entity or enterprise.

(d) FC Canada is not a non-resident of Canada within the meaning of the Tax Act.

2.2 AUTHORITY; NO CONFLICT.

(a) This Agreement constitutes the legal, valid, and binding obligation of FCC and FC Canada enforceable against FCC and FC Canada in accordance with its terms, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws affecting creditor's rights generally. FCC and FC Canada each has the absolute and unrestricted right, power, authority, and capacity to execute and deliver this Agreement and to perform its respective obligations under this Agreement.

(b) Except as set forth in Part 2.2(b) of the Disclosure Letter, neither the execution and delivery of this Agreement nor the consummation or performance of any of the Contemplated Transactions will, directly or indirectly (with or without notice or lapse of time):

(i) contravene, conflict with, or result in a violation of (A) any provision of the Organizational Documents of the Acquired Companies, FCC or FC Canada, or (B) any resolution adopted by the Board of Directors or the shareholders of any Acquired Company, or any Seller;

(ii) contravene, conflict with, or result in a violation of, or give any Governmental Body or other Person the right to challenge any of the Contemplated Transactions or to exercise any remedy or obtain any relief under, any Legal Requirement or any Order to which any Acquired Company or any Seller, or any of the assets owned, leased or used by, any Acquired Company, may be subject which would have a Material Adverse Effect on any Acquired Company;

(iii) contravene, conflict with, or result in a violation of any of the terms or requirements of, or give any Governmental Body the right to revoke, withdraw, suspend, cancel, terminate, or modify, any Governmental Authorization that is held by any Acquired Company or that otherwise relates to the business of, or any of the assets owned, leased or used by, any Acquired Company;

(iv) contravene, conflict with, or result in a violation or breach of any provision of, or give any Person the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel, terminate, or modify, any Applicable Contract; or

(v) result in the imposition or creation of any Encumbrance upon or with respect to any of the assets owned, leased or used by any Acquired Company.

Except as set forth in Part 2.2(b) of the Disclosure Letter, no Seller or any Acquired Company is or will be required to give any notice to or obtain any Consent from any Person in connection with the execution and delivery of this Agreement or the consummation or performance of any of the Contemplated Transactions.

2.3 CAPITALIZATION.

(a) The authorized equity securities of Premier Agendas consist of 1,000,000 shares of common stock, no par value, 11,200 of which are issued and outstanding and constitute the Premier Agendas Shares. No equity securities of any class or nature are authorized or issued with respect to Premier Agendas, except the Premier Agenda Shares. The authorized equity securities of PSA consist of an unlimited number of common shares for an unlimited consideration, 100 of which are issued and outstanding and constitute the PSA Shares. No equity securities of any class or nature are authorized or issued with respect to PSA, except the PSA Shares.

Sellers are and will be on the Closing Date the record and beneficial owners and holders of the Shares free and clear of all Encumbrances. The Shares listed on Schedule 2.3(a) represent all of the holdings of securities of the Acquired Companies, all of which are owned by the Sellers. Other than as set forth on Part 2.3 of the Disclosure Letter, no legend or other reference to any purported Encumbrance appears upon any certificate representing equity securities of each Acquired Company. All of the outstanding equity securities of any Acquired Company have been duly authorized and validly issued and are fully paid and nonassessable.

(b) There are no outstanding options, warrants or other securities or rights that may be exercised to purchase or are convertible into equity or debt securities of the Acquired Companies and there are no Applicable Contracts relating to the issuance, sale, or transfer of any equity securities or other securities of any Acquired Company. None of the outstanding securities of any Acquired Company was issued in violation of the Securities Act or any equivalent securities laws in Canada or any state of the United States or province of Canada or any other Legal Requirement. Other than as set forth on Part 2.3 of the Disclosure Letter, no Acquired Company owns, or has any Contract to acquire, any securities of any Person (other than Acquired Companies) or any direct or indirect equity or ownership interest in any other business.

2.4 FINANCIAL STATEMENTS AND OTHER INFORMATION. The Sellers and the Acquired Companies have, or will have prior to the Closing, delivered or made available to Buyers:

(a) Combined balance sheets, together with combining schedules, of the Acquired Companies as of August 31st in each of the years 1999 through 2001, and the related statements of income together with combining schedules for the years then ended, as such balance sheets with together with combining schedules and the related statements of income together with combining schedules for the years then ended have been included in the audited consolidated financial statements of the Sellers. Sellers have, or will have prior to Closing, delivered to the Buyers unaudited combined balance sheets together with combining schedules of the Acquired Companies as of November 24, 2001, and the related statements of income together with combining schedules for the three (3) periods then ended which fairly present the financial condition and results of operations of the Acquired Companies as of November 24, 2001, and for the period then ended, all in accordance with GAAP, except for the lack of year end adjustments which are not anticipated to be material, and statements in changes of shareholders' equity and cash flows and notes thereto (the "Interim Financial Statements"). The Sellers shall deliver to the Buyers under terms of Section 1.6 the financial statements as therein required and in combination with the Interim Financial Statements, shall be considered the "Financial Statements" under the terms of this Section 2.4. Such Financial Statements fairly present the financial condition and the results of operations of the Acquired Companies as at the respective dates of and for the periods referred to in such Financial Statements, all in accordance with GAAP (except for the lack of year end adjustments in the Interim Financial Statements which are not anticipated to be material, and statements in changes of shareholders' equity and cash flows and notes thereto). No Financial Statements of any Person other than the Acquired Companies are required by GAAP to be included in the Financial Statements of the Acquired Companies. The combined balance sheets which are part of the Financial Statements shall separately break out the inventory reserves and accounts receivable reserves. Part 2.4(a) of the Disclosure Letter sets forth the accounting treatment of certain items that may be an exception to this representation and warranty.

(b) All information in the Sellers' and Acquired Companies' possession or control, or of which the Acquired Companies or Sellers have Knowledge, concerning the operation, business and prospects of the Acquired Companies as may be requested by either Buyer, including, without limitation, making the working papers of the Acquired Companies' Accountants available for inspection and copying by the Buyers' Auditors (except for proprietary information of Sellers' and Acquired Companies' Accountants), and all other information requested by the Buyers concerning any of the Acquired Companies' assets, liabilities, and any aspect of the Acquired Companies' business.

2.5 BOOKS AND RECORDS. The books of account, minute books, stock record books, and other records of the Acquired Companies, all of which will be made available prior to the Closing to Buyers, are complete and correct in all material respects and have been maintained in accordance with reasonable business practices. At the Closing, all of those books and records will be in the possession or control of the Acquired Companies.

2.6 TITLE TO PROPERTIES; ENCUMBRANCES.

(a) The Acquired Companies own (with good and marketable fee title in the case of real property, subject only to the matters permitted by Section 2.6(b)), all the properties and assets (whether real, personal, or mixed and whether tangible or intangible) reflected as owned in the books and records of the Acquired Companies, including all of the properties and assets reflected in the Balance Sheet (except for assets held under capitalized leases disclosed or not required to be disclosed in Part 2.6 of the Disclosure Letter and properties and assets sold since the date of the Balance Sheet, as the case may be, in the Ordinary Course of Business), and all of the properties and assets purchased or otherwise acquired by the Acquired Companies since the date of the Balance Sheet (except for properties and assets acquired and sold since the date of the Balance Sheet in the Ordinary Course of Business) up to and including the Closing Date as reflected on the Closing Balance Sheet, which subsequently purchased or acquired properties and assets having an individual value in excess of $50,000.00 are listed in Part 2.6 of the Disclosure Letter.

(b) Except as set forth in Part 2.6 of the Disclosure Letter, all properties and assets reflected in the Balance Sheet and the Closing Balance Sheet are free and clear of all Encumbrances and are not, in the case of real property, subject to any boundary disputes, rights of way, easements, building, mining or other use restrictions, variances, or reservations, (but, with respect to Canadian real property, such property is subject to reservations in the original or any

subsequent grant from the Crown), of any nature, except, with respect to all such properties and assets, (i) mortgages or security interests shown on the Balance Sheet and as updated through Closing, as reflected on the Closing Balance Sheet, as securing specified liabilities or obligations, with respect to which no default (or event that, with notice or lapse of time or both, would constitute a default) exists, (ii) mortgages or security interests incurred in connection with the purchase of property or assets after the date of the Balance Sheet (such mortgages and security interests being limited to the property or assets so acquired), with respect to which no default, or event that, with notice or lapse of time or both, is reasonably likely to constitute a default exists, (iii) liens for current taxes and assessments not yet due, or in the case of real property due but not yet delinquent, and (iv) with respect to real property, (x) easements or restrictions which, individually or in the aggregate, would not have a Material Adverse Effect on the use of such real property by the Acquired Company for the purposes for which it is intended, and (y) current zoning laws and other land use restrictions.

(c) Part 2.6 of the Disclosure Letter contains a complete and accurate list of all real property, leaseholds, or other interests in real property owned or leased by any Acquired Company. The Acquired Companies have already delivered or made available to Buyers copies of the recorded deeds by which the Acquired Companies acquired fee title to all such real property owned by the Acquired Companies and copies of fully executed leases pertaining to real property currently leased by the Acquired Companies. FCC and the Acquired Companies will deliver, prior to the Closing Date, copies of all title insurance policies, opinions, abstracts, permits, certificates, plans (including all reclamation plans), studies, investigations, reports and surveys in the possession of any Acquired Company or Seller and relating to the ownership, use or operation of such real property.

(d) Except as set forth in Part 2.6 of the Disclosure Letter, no Acquired Company has received notice of a proposed general plan amendment, zone reclassification, modification, expiration or cancellation of any conditional use permit or other public land use action which would affect any part of the real property owned or leased by any Acquired Company. No current use of the real property owned or leased by any Acquired Company, or any currently anticipated future use, conflicts with any present general plan or zoning classification or use permit which affects any part of such real property. All buildings, plants and structures owned by any of the Acquired Companies lie wholly within the legal boundaries of the real property owned by or leased by such Acquired Company and do not encroach upon the property of, or otherwise conflict with the property rights of, any other Person. Except as set forth on Part 2.6 of the Disclosure Letter, no Acquired Company has received or been threatened with any notice or communication of any violation of any Legal Requirement pertaining to the real property owned or leased by any Acquired Company, including without limitation, environmental regulations affecting the Property. No commitment to or agreement with any Governmental Body exists which could affect such real property, including but not limited to any dedication agreement, operation restrictions, and formation of any special assessment or taxing district, except as disclosed in this Agreement. None of such real property is located in an area designated as (i) having special flood hazards on any official flood hazard map published by the United States Department of Housing and Urban Development (except as may pertain to possible 100 year flood plan status), or (ii) a wetland area on any official wetland inventory map published by the United States Department of the Interior, or similar state law. Each real property owned or leased by any Acquired Company has valid legal access to a public street or road and no restrictions exist pertaining to truck traffic to and from such real property except for general vehicular registrations governing speed and weight limits. The buildings and structures located on any real property owned, leased, or used by the Acquired Companies have not been insulated with a urea formaldehyde foam type installation.

2.7 INTELLECTUAL PROPERTY. The term "Intellectual Property Assets" shall include the names of the Acquired Companies, all other fictitious business names and trade names under which the Acquired Companies have conducted their businesses, registered and unregistered trademarks, service marks and applications (collectively, "Marks") used in connection with the Acquired Companies' businesses, all copyrights in both published works and unpublished works (collectively, "Copyrights") owned, developed or used by any of the Acquired Companies in connection with the operation of the businesses, all patents and patent applications, both domestic and foreign (collectively, "Patents") the inventions covered by which are owned or used or have been developed by any of the Acquired Companies in connection with the operation of the businesses, and all designs, inventions, know-how, trade secrets, confidential information, software, technical information, workbooks, consulting plans and products (collectively, "Trade Secrets") owned, developed or used by any of the Acquired Companies in connection with the operation of the businesses. All of the Intellectual Property Assets of the Acquired Companies are described in Part 2.7 of the Disclosure Letter. The Intellectual Property Assets are all the intellectual property necessary or used in the operation of the Acquired Companies' business and are sufficient for the continued conduct of the Acquired Companies' businesses after the closing in substantially the same manner as conducted prior to the Closing. There are no pending Proceedings or threatened disputes or disagreements with respect to the Intellectual Property Assets, and to the Knowledge of the Acquired Companies there is no basis, whether or not pending or threatened, for any challenge to the validity, enforceability, or ownership of any Intellectual Property. The Acquired Companies are the owners of all right, title and interest in and to each of the Intellectual Property Assets free and clear of all Encumbrances. No such Intellectual Property Asset infringes upon or, to the Knowledge of Acquired Companies, has been alleged to infringe upon the Intellectual property rights of any other Person.

2.8 CONDITION AND SUFFICIENCY OF ASSETS. Except as set forth on Part 2.8 of the Disclosure Letter, the buildings, plants, structures, and equipment of the Acquired Companies, including all equipment not shown on the Balance Sheet and as updated through Closing, as reflected on the Closing Balance Sheet, of each Acquired Company which is held by such Acquired Company pursuant to the terms of operating leases, are structurally sound, are in reasonable operating condition and repair, subject to ordinary wear and tear, and are adequate for the uses to which they are being put. All buildings, plants, structures and equipment of the Acquired Companies that are capitalized on the Balance Sheet and as updated through Closing, as reflected on the Closing Balance Sheet, and all equipment held under operating leases are described in Part 2.8 of the Disclosure Letter. The building, plants, structures, and equipment of the Acquired Companies are sufficient for the continued conduct of the Acquired Companies' businesses after the Closing in substantially the same manner as conducted prior to the Closing.

2.9 ACCOUNTS RECEIVABLE. All accounts receivable of the Acquired Companies that are reflected on the Balance Sheet and as updated as of the Closing Date on the Closing Balance Sheet (collectively, the "Accounts Receivable") represent or will represent valid obligations arising from sales actually made or services actually performed in the Ordinary Course of Business. The Sellers make no representation or warranty regarding the collectibility of the Acquired Companies' accounts receivable, however except as set forth in Section 2.9 of the Disclosure Letter, the Accounts Receivable are current and the respective reserves shown on the Acquired Companies' books and records were calculated in accordance with GAAP. Except as set forth in Part 2.9 of the Disclosure Letter, there is no material contest or claim other than returns in the Ordinary Course of Business, under any Applicable Contract with any maker of an Accounts Receivable relating to the amount or validity of such Accounts Receivable. A complete and accurate list of all Accounts Receivable posted on each of the Acquired Companies' books as of August 31, 2001, and an aging of such Accounts Receivable, updated through the close of business on the last business day prior to the Closing Date for the purposes of calculations as required under Section 1.5 herein has been and will be provided to the Buyer.

2.10 INVENTORY. The inventory of the Acquired Companies consists of raw materials and supplies, manufactured and purchased parts, goods in process and finished goods. Such inventory is not excessive but reasonable in amount in the present circumstances of the Acquired Companies and is not obsolete, subject to a GAAP reserve for inventory set forth on the Balance Sheet and as updated through Closing, as reflected on the Closing Balance Sheet. A complete and accurate list of all inventory of each of the Acquired Companies as of August 31, 2001, updated through the close of business on the last business day prior to the Closing Date for the purposes of calculations as required under Section 1.5 herein has been and will be provided to the Buyer.

2.11 NO UNDISCLOSED LIABILITIES. Except as set forth in Part 2.11 of the Disclosure Letter, none of the Acquired Companies has any material liabilities or obligations of any nature (whether known or unknown and whether absolute, accrued, contingent, or otherwise), or guarantees of any material liabilities or obligations, except for liabilities or obligations reflected or reserved against in the Balance Sheet as updated through Closing in the Closing Balance Sheet, Applicable Contracts and liabilities incurred in the Ordinary Course of Business since the respective dates thereof. None of such liabilities relate to a criminal proceeding, violation of law, breach of contract or tort obligation.

2.12 TAXES.

(a) The Sellers and/or the Acquired Companies filed or caused to be filed on a timely basis all Tax Returns that are or were required to be filed by or with respect to any of them, either separately or as a member of a group of corporations, pursuant to applicable Legal Requirements. The Sellers and/or the Acquired Companies have delivered or will deliver within five (5) days of the execution and delivery of this Agreement to Buyers copies of, and Part 2.12 of the Disclosure Letter contains a complete and accurate list of, all such Tax Returns relating to income or franchise taxes filed since September 1, 1998. The Sellers and/or the Acquired Companies have paid, or made provision for the payment of, all Taxes whether or not shown on any Tax Returns or otherwise, or pursuant to any assessment received by any Acquired Company, except such Taxes, if any, as are listed in Part 2.12 of the Disclosure Letter and are being contested in good faith and as to which adequate reserves (determined in accordance with GAAP) have been provided in the Balance Sheet and updated as of the Closing Date in the Closing Balance Sheet and updated as of the Closing Date in the Closing Balance Sheet.

(b) Federal Canadian income tax assessments have been issued to PSA covering all past periods through the fiscal year ended August 31, 2000 (and such assessments, if any amounts were owing in respect thereof, have been paid, accrued in the Balance Sheet and as updated through Closing, as reflected on the Closing Balance Sheet, or, where permitted by law, security therefore has been provided. Except as set forth on Part 2.12(b) of the Disclosure Letter, the United States federal and state income Tax Returns of each Acquired Company subject to the United States Taxes described in Section 2.12(a) have not been audited by the IRS or relevant state tax authorities and the Canadian federal and provincial Tax Returns of each Acquired Company subject to the Canadian Taxes described in Section 2.12(a) have not been audited by Canada Customs and Revenue Agency or applicable provincial taxing authorities. Except as described in Part 2.12 of the Disclosure Letter, no Seller or Acquired Company has given or been requested to give waivers or extensions (or is or would be subject to a waiver or extension given by any other Person) of any statute of limitations relating to the payment of Taxes of any Acquired Company or for which any Acquired Company may be liable.

(c) The charges, accruals, and reserves with respect to Taxes on the respective books of each Acquired Company are adequate (determined in accordance with GAAP) and are at least equal to that Acquired Company's liability for Taxes. To the Knowledge of the Acquired Companies, there exists no proposed tax assessment against any Acquired Company except as disclosed in the Balance Sheet and/or the Closing Balance Sheet and in Part 2.12 of the Disclosure Letter. No consent to the application of Section 341(f)(2) of the Code has been filed with respect to any property or assets held, acquired, or to be acquired by any Acquired Company. All Taxes that any Acquired Company is or was required by Legal Requirements to withhold or collect have been duly withheld or collected and, to the extent required, have been paid to the proper governmental Body or other Person.

(d) All Tax Returns filed by (or that include on a combined basis) any Acquired Company are true, correct, and complete.

2.13 NO MATERIAL ADVERSE EFFECT. Since August 31, 2001 other than for general economic conditions or as disclosed in Part 2.13 of the Disclosure Letter, there has not been any Material Adverse Effect, taken as a whole, and no event has occurred or circumstance exists that is reasonably likely to result in such a Material Adverse Effect. In addition, since August 31, 2001, there has been no Material Adverse Effect in the composition of the assets of the Acquired Companies.

2.14 EMPLOYEE BENEFITS. Except as described in Part 2.14 of the Disclosure Letter, none of the Acquired Companies maintains or operates any Employee Benefit Plan nor has any such Employee Benefit Plan been maintained or operated during the past three years. None of the Acquired Companies maintains or contributes to any Guaranteed Pension Plan or Multiemployer Plan. With respect to each Employee Benefit Plan listed in Part 2.14 of the Disclosure Letter, to the extent applicable,

(a) each such Employee Benefit Plan affecting employees of Premier Agendas has been maintained and operated in all material respects in compliance with its terms and with all applicable provisions of ERISA, the Code and all applicable regulations, rulings and other authority issued thereunder and, in the case of PSA, all applicable legislation, regulations, rulings and other authority issued thereunder;

(b) all contributions required by law to have been made under each such Employee Benefit Plan to any fund or trust established thereunder or in connection therewith have been made by the due date thereof;

(c) each such Employee Benefit Plan intended to qualify under Section 401(a) of the Code is the subject of a favorable unrevoked determination letter issued by the Internal Revenue Service as to its qualified status under the Code, which determination letter may still be relied upon as to such tax qualified status, and no circumstances have occurred that would adversely affect qualified status of any such Employee Benefit Plan;

(d) no Employee Benefit Plan affecting employees of Premier Agendas is subject to Title IV of ERISA;

(e) none of such Employee Benefit Plans affecting employees of Premier Agendas that are "employee welfare benefit plans" as defined in section 3(a) of ERISA provides for continuing benefits or coverage for any participant or beneficiary of a participant after such participant's termination of employment except as required by applicable law, including section 4980B of the Code or Section 6701 of ERISA; and

(f) Premier Agendas, or any trade or business (whether or not incorporated) under common control with Premier Agendas within the meaning of Section 401 of ERISA has, or at any time has had, any obligation to contribute to any "Multiemployer Plan."

PSA does not maintain a pension plan for the employees in its Canadian operations. No Acquired Company is party to any management agreement, pay equity plan, vacation or vacation pay policy, employee insurance, hospital or medical expense program or pension, retirement, profit sharing, stock bonus, deferred profit sharing, supplemental retirement, unemployment benefit, group registered retirement savings plan, disability insurance, dental services or other employee benefit plan, program or arrangement or to any executive or key personnel incentive or other special compensation arrangement or to other contracts or agreements with or with respect to officers, employees or agents other than those listed and described in Part 2.14 of the Disclosure Letter and those required to be maintained, paid or contributed to by law.

2.15 COMPLIANCE WITH LEGAL REQUIREMENTS; GOVERNMENTAL AUTHORIZATIONS.

(a) Except as set forth in Part 2.15 of the Disclosure Letter:

(i) each Acquired Company is in material compliance with each Legal Requirement that is or was applicable to it or to the conduct or operation of its business or the ownership or use of any of its assets;

(ii) to the Knowledge of the Acquired Companies no event has occurred or circumstance exists that (with or without notice or lapse of time) (A) is reasonably likely to constitute or result in a violation by any Acquired Company of, or a failure on the part of any Acquired Company to comply with, any Legal Requirement, or (B) is reasonably likely to give rise to any obligation on the part of any Acquired Company to undertake, or to bear all or any portion of

the cost of, any remedial action of any nature; and

(iii) no Acquired Company has received any notice or other communication (whether oral or written) from any Governmental Body or any other Person regarding (A) any actual, alleged, possible, or potential violation of, or failure to comply with, any Legal Requirement, or (B) any actual, alleged, possible, or potential obligation on the part of any Acquired Company to undertake, or to bear all or any portion of the cost of, any remedial action of any nature.

(b) Part 2.15 of the Disclosure Letter contains a complete and accurate list of each Governmental Authorization that is held by any Acquired Company or that otherwise relates to the business of, or to any of the assets owned, leased or used by, any Acquired Company. Each Governmental Authorization listed or required to be listed in Part 2.15 of the Disclosure Letter is valid and in full force and effect. Except as set forth in Part 2.15 of the Disclosure Letter:

(i) each Acquired Company is in material compliance with all of the terms and requirements of each Governmental Authorization identified or required to be identified in Part 2.15 of the Disclosure Letter;

(ii) to the Knowledge of the Acquired Companies no event has occurred or circumstance exists that is reasonably likely to (with or without notice or lapse of time) (A) constitute or result directly or indirectly in a violation of or a failure to comply with any term or requirement of any Governmental Authorization listed or required to be listed in Part 2.15 of the Disclosure Letter, or (B) result directly or indirectly in the revocation, withdrawal, suspension, cancellation, or termination of, or any modification to, any Governmental Authorization listed or required to be listed in Part 2.15 of the Disclosure Letter;

(iii) no Acquired Company has received any notice or other communication (whether oral or written) from any Governmental Body or any other Person regarding (A) any material, actual, alleged, possible, or potential violation of or failure to comply with any term or requirement of any Governmental Authorization, or (B) any material, actual, proposed, possible, or potential revocation, withdrawal, suspension, cancellation, termination of, or modification to any Governmental Authorization; and

(iv) all applications required to have been filed for the renewal of the Governmental Authorizations listed or required to be listed in Part 2.15 of the Disclosure Letter have been duly filed on a timely basis with the appropriate Governmental Bodies, and all other filings required to have been made with respect to such Governmental Authorizations have been duly made on a timely basis with the appropriate Governmental bodies.

The Governmental Authorizations listed in Part 2.15 of the Disclosure Letter collectively constitute all of the Governmental Authorizations necessary as at the Closing Date to permit each of the Acquired Companies to lawfully conduct and operate its business in the manner it currently conducts and operates such business and to permit the Acquired Companies to own and use their assets in the manner in which they currently own and use such assets.

2.16 LEGAL PROCEEDINGS; ORDERS.

(a) Except as set forth in Part 2.16 of the Disclosure Letter, there is no pending Proceeding:

(i) that has been commenced by or against any Acquired Company; or

(ii) that challenges, or that may have the effect of preventing, delaying, making illegal, or otherwise interfering with, any of the Contemplated Transactions; or

(iii) relating to the Shares.

To the Knowledge of the Acquired Companies, no such Proceeding has been threatened, and no event has occurred or circumstance exists that is reasonably likely to give rise to or serve as a basis for the commencement of any such Proceeding. Sellers have delivered or will deliver to Buyers copies of all pleadings, correspondence, and other documents relating to each Proceeding listed in Part 2.16 of the Disclosure Letter.

(b) Except as set forth in Part 2.16 of the Disclosure Letter:

(i) there is no Order to which any of the Acquired Companies, or any of the assets owned, leased or used by any of the Acquired Companies is subject;

(ii) no officer, director or, to the Knowledge of the Acquired Companies, no agent, or employee of any Acquired Company is subject to any Order that prohibits such officer, director, agent, or employee from engaging in or continuing any conduct, activity, or practice relating to the business of any Acquired Company.

(c) Except as set forth in Part 2.16 of the Disclosure Letter:

(i) each Acquired Company is, and at all times has been, in material compliance with all of the terms and requirements of each Order to which it, or any of the assets owned, leased or used by it, is or has been subject;

(ii) to the Knowledge of the Acquired Companies, no event has occurred or circumstance exists that may constitute or result in (with or without notice or lapse of time) a violation of or failure to comply with any term or requirement of any Order to which any Acquired Company, or any of the assets owned, leased or used by any Acquired Company, is subject; and

(iii) no Acquired Company has received at any time any notice or other communication (whether oral or written) from any Governmental Body or any other Person regarding any actual, alleged, possible, or potential violation of, or failure to comply with, any term or requirement of any Order to which any Acquired Company, or any of the assets owned, leased or used by any Acquired Company, is or has been subject.

2.17 ABSENCE OF CERTAIN CHANGES AND EVENTS. Except as set forth in Part 2.17 of the Disclosure Letter, since August 31, 2001 there has not been any:

(a) change in any Acquired Company's authorized or issued capital stock; grant of any stock option or right to purchase shares of capital stock of any Acquired Company; issuance of any security convertible into such capital stock; grant of any registration rights; or purchase, redemption, retirement, or other acquisition by any Acquired Company of any shares of any such capital stock;

(b) amendment to the Organizational Documents of any Acquired Company;

(c) payment or increase by any Acquired Company of any bonuses, salaries, or other compensation to any Seller, stockholder, director, officer, or (except in the Ordinary Course of Business) employee or entry into any employment, severance, or similar Contract with any director, officer, or employee;

(d) discharge or satisfaction of any Encumbrance, or payment of any obligation or liability (fixed or contingent) other than liabilities included in the Balance Sheet and current liabilities incurred since the date of the Balance Sheet in the Ordinary Course of Business as reflected on the Closing Balance Sheet;

(e) adoption of, or increase in the payments to or benefits under, any profit sharing, bonus, deferred compensation, savings, insurance, pension, retirement, or other employee benefit plan for or with any employees of any Acquired Company;

(f) damage to or destruction or loss of any asset or property of any Acquired Company, whether or not covered by insurance, materially and adversely affecting the properties, assets, business, financial condition, or prospects of any of the Acquired Companies;

(g) entry into (i) any license, sales representative, joint venture, credit, or similar agreement, or (ii) any Applicable Contract outside the Ordinary Course of Business;

(h) termination of, or receipt of notice of termination of (i) any license, sales representative, joint venture, credit, or similar agreement or (ii) any Applicable Contract or transaction involving a total remaining commitment by any Acquired Company of at least $100,000.00;

(i) sale, lease, or other disposition of any asset of any Acquired Company other than sales of inventory in the Ordinary Course of Business or dispositions of minor items of personal property, the cumulative effect of which is not material to any Acquired Company, or mortgage, pledge, or imposition of any Encumbrance on any material asset of any Acquired Company;

(j) cancellation or waiver of any claims or rights with a value to any Acquired Company in excess of $100,000.00, except for lien releases given in the Ordinary Course of Business;

(k) material change in the accounting methods used by any Acquired Company; or

(l) agreement, whether oral or written, by any Acquired Company to do any of the foregoing.

2.18 CONTRACTS; NO DEFAULTS.

(a) Part 2.18(a) of the Disclosure Letter contains a complete and accurate list, and Sellers have delivered to Buyers true and complete copies, of all Applicable Contracts which have not been fully performed and for which obligations are still outstanding, of:

(i) each Applicable Contract for which work is still to be performed or services or goods are still to be provided that involves performance of services or delivery of goods or materials by any Acquired Company of an amount or value in excess of $50,000;

(ii) each Applicable Contract for which work is still to be performed or services or goods are still to be provided that involves performance of services from a subcontractor in excess of $50,000;

(iii) each Applicable Contract that involves capital expenditures of any Acquired Company in excess of $50,000;

(iv) each lease, rental or occupancy agreement, license, installment and conditional sale agreement, and other Applicable Contract affecting the ownership of, leasing of, title to, use of, or any leasehold or other interest in, any real or personal property (except personal property leases and installment and conditional sales agreements having a value per item or aggregate payments of less than $1,000 per month);

(v) each licensing agreement or other Applicable Contract with respect to patents, trademarks, copyrights, or other intellectual property, including agreements with current or former employees, consultants, or contractors regarding the appropriation or the non-disclosure of any of the Intellectual Property Assets;

(vi) each collective bargaining agreement and other Applicable Contract to or with any labor union or other employee representative of a group of employees relating to wages, hours, and other conditions of employment;

(vii) each joint venture, partnership, and other Applicable Contract (however named) involving a sharing of profits, losses, costs, or liabilities by any Acquired Company with any other Person;

(viii) each Applicable Contract containing covenants that in any way purport to restrict any Acquired Company’s business activity or limit the freedom of any Acquired Company to engage in any line of business or to compete with any Person;

(ix) each Applicable Contract providing for payments to or by any Person based on sales, purchases, or profits, other than direct payments for goods;

(x) each power of attorney that is currently effective and outstanding;

(xi) each Applicable Contract entered into other than in the Ordinary Course of Business that contains or provides for an express undertaking by any Acquired Company to be responsible for consequential damages;

(xii) each written warranty, guaranty, and or other similar undertaking with respect to contractual performance extended by any Acquired Company other than in the Ordinary Course of Business; and

(xiii) each amendment, supplement, and modification (whether oral or written) in respect of any of the foregoing.

Part 2.18(a) of the Disclosure Letter sets forth information regarding such Applicable Contracts, including the parties to the Applicable Contracts, the date of such Applicable Contracts and the Acquired Company's office where details relating to the Applicable Contracts are located.

(b) Except as set forth in Part 2.18(b) of the Disclosure Letter:

(i) no Seller has or may acquire any rights under, and no Seller or any shareholder of FCC has or may become subject to any obligation or liability under, any Applicable Contract that relates to the business of, or any of the assets owned, leased or used by, any Acquired Company; and

(ii) to the Knowledge of the Acquired Companies, no officer, director, agent, employee, consultant, or contractor of any Acquired Company is bound by any Contract that purports to limit the ability of such officer, director, agent, employee, consultant, or contractor to (A) engage in or continue any conduct, activity, or practice relating to the business of any Acquired Company, or (B) assign to any Acquired Company or to any other Person any rights to any invention, improvement, or discovery.

(c) Except as set forth in Part 2.18(c) of the Disclosure Letter:

(i) each Contract identified or required to be identified in Part 2.18(a) of the Disclosure Letter is in full force and effect; and

(ii) to the Knowledge of the Acquired Companies, no Contract identified or required to be identified in Part 2.18(a) of the Disclosure Letter contains any term or requirement that is not customary in the industries in which the Acquired Companies operate.

(d) Except as set forth in Part 2.18(d) of the Disclosure Letter:

(i) each Acquired Company is in material compliance with all applicable terms and requirements of each Applicable Contract under which such Acquired Company has or had any obligation or liability or by which such Acquired Company or any of the assets owned, leased or used by such Acquired Company is or was bound;

(ii) to the Knowledge of the Acquired Companies, each other Person that has or had any obligation or liability under any Contract under which an Acquired Company has or had any rights is in material compliance with all applicable terms and requirements of such Contract;

(iii) to the Knowledge of the Acquired Companies, no event has occurred or circumstance exists that (with or without notice or lapse of time) is reasonably likely to contravene, conflict with, or result in a violation or breach of, or give any Acquired Company or other Person the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel, terminate, or modify, any Applicable Contract; and

(iv) no Acquired Company has given to or received from any other Person any notice or other communication (whether oral or written) regarding any actual, alleged, possible, or potential violation or breach of, or default under, any Contract.

(e) There are no renegotiations of, attempts to renegotiate, or outstanding rights to renegotiate any material amounts paid or payable to any Acquired Company under current or completed contracts with any Person having the contractual or statutory right to demand or require such renegotiation and, to the Knowledge of each Acquired Company and Seller, no such Person has made written demand for such renegotiation.

(f) To the Knowledge of the Acquired Companies, the Contracts relating to the sale, design, manufacture, or provision of products or services by the Acquired Companies have been entered into in the Ordinary Course of Business and have been entered into without the commission of any act alone or in concert with any other Person, or any consideration having been paid or promised, that is or is reasonably likely to be in violation of any Legal Requirement.

2.19 INSURANCE.

(a) The Acquired Companies have delivered or will deliver to Buyers on or before the date hereof:

(i) true and complete copies of all policies of insurance to which any Acquired Company is a party or under which any Acquired Company, or any director of any Acquired Company, is or has been covered at any time within the three (3) years preceding the date of this Agreement to the extent in the possession of any Acquired Company or Seller or their insurance agent. Except for part 2.19(a) of the Disclosure Letter, all such coverages for Premier Agendas shall be in the form of occurrence and not claims;

(ii) true and complete copies of all pending applications for policies of insurance; and

(iii) any statement by the auditor of any Acquired Company's financial statements with regard to the adequacy of such entity's coverage or of the reserves for claims.

(b) Part 2.19(b) of the Disclosure Letter describes:

(i) any self-insurance arrangement by or affecting any Acquired Company, including any reserves established thereunder, which are adequately recorded in the Balance Sheet and as updated through Closing, as reflected on the Closing Balance Sheet, in accordance with GAAP;

(ii) any contract or arrangement, other than a policy of insurance for the transfer or sharing of any risk by any Acquired Company; and

(iii) all obligations of the Acquired Companies to provide coverage to third parties (for example, under leases or service agreements) and identifies the policy under which such coverage is provided.

(c) Part 2.19(c) of the Disclosure Letter sets forth, by year, for the current policy year and each of the 3 preceding policy years:

(i) a summary of the loss experience under each policy;

(ii) a statement describing the loss experience for all claims that were self-insured, including the number and aggregate cost of such claims.

(d) Except as set forth on Part 2.19(d) of the Disclosure Letter:

(i) All policies to which PSA is a party or that provide coverage to PSA or any director or officer thereof:

(A) are valid and outstanding;

(B) are issued by an insurer that to the knowledge of the Acquired Companies is financially sound and reputable;

(C) taken together, provide adequate insurance coverage for the assets and the operations of Acquired Companies for all risks normally experienced by the Acquired Companies according to their historical experience; and

(D) are sufficient for compliance with all Legal Requirements and Contracts to which the any Acquired Company is a party or by which any of them is bound;

(E) will not, by virtue of the Closing of this transaction, fail to continue in full force and effect following the consummation of the Contemplated Transactions.

(ii) No Seller or Acquired Company has received (A) any refusal of coverage or any notice that a defense will be afforded with reservation of rights, or (B) any notice of cancellation or any other indication that any insurance policy is no longer in full force or effect or that the issuer of any policy is not willing or able to perform its obligations thereunder.

(iii) The Sellers and/or Acquired Companies have paid all premiums due, and have otherwise performed all of their respective obligations, under each policy to which any Acquired Company is a party or that provides coverage to any Acquired Company or director thereof.

(iv) The Acquired Companies have given notice to the insurer of all claims that may be insured thereby.

(e) The insurance covering the Acquired Companies is part of FCC's group insurance coverage and such insurance will not be available to the Buyer or the Acquired Companies following the Closing.

2.20 ENVIRONMENTAL AND OCCUPATIONAL SAFETY AND HEALTH MATTERS. Except as set forth in Part 2.20 of the Disclosure Letter:

(a) Each Acquired Company is, and at all times prior to the date hereof has been, in material compliance with, and has not been and is not currently in violation of any Environmental Law or any Occupational Safety and Health Law. No acquired Company has any reason to expect, nor have any of them received, any actual or threatened order, notice, or other communication from (i) any Governmental Body or private citizen acting in the public interest, or (ii) the current or prior owner or operator of any Facilities, of any actual or potential violation or failure to comply with any Environmental Law or any Occupational Safety and Health Law, or of any actual or threatened obligation to undertake or bear the cost of any Environmental, Health, and Safety Liabilities with respect to any of the Facilities or any other properties or assets (whether real, personal, or mixed) in which any Acquired Company has had an interest, or with respect to any property or Facility at or to which Hazardous Materials were generated, manufactured, refined, transferred, imported, used, or processed by any Acquired Company, or from which Hazardous Materials have been transported, treated, stored, handled, transferred, disposed, recycled, or received.

(b) No Acquired Company has any reason to expect, nor has any of them, received, any Order, notice, communication, inquiry, warning, citation, summons or directive that relates to Hazardous Activity, Hazardous Materials, or any alleged, actual, or potential violation or failure to comply with any Environmental Law or any Occupational Safety and Health Law, or of any alleged, actual, or potential obligation to undertake or bear the cost of any Environmental, Health, and Safety Liabilities with respect to any of the Facilities the operations of the Acquired Companies, or any other properties or assets (whether real, personal, or mixed) in which any Acquired Company had an interest, or with respect to any property or facility to which Hazardous Materials generated, manufactured, refined, transferred, imported, used, or processed by any Acquired Company have been transported, treated, stored, handled, transferred, disposed, recycled, or received.

(c) No Acquired Company has any material Environmental, Health, and Safety Liabilities with respect to the Facilities, the operations of the Acquired Companies or, with respect to any other properties and assets (whether real, personal, or mixed) in which any Acquired Company (or any predecessor), has or had an interest, or, to the Knowledge of the Acquired Companies, at any property geologically or hydrologically adjoining the Facilities or any such other property or assets.

(d) Other than materials used by the Acquired Companies in the Ordinary Course of Business and in compliance with all applicable Environmental Laws,, there are no Hazardous Materials present on or in the environment at the Facilities or, to the Knowledge of the Acquired Companies, at any geologically or hydrologically adjoining property, including any Hazardous Materials contained in barrels, above or underground storage tanks, landfills (authorized or unauthorized), land deposits, dumps, equipment (whether moveable or fixed) or other containers, either temporary or permanent, and deposited or located in land, water, swamps, or any other part of the Facilities or such adjoining property, or incorporated into any structure therein or thereon. No Acquired Company has permitted or conducted, and is not aware of, any activity conducted with Hazardous Materials with respect to the Facilities or, to the Knowledge of the Acquired Companies, any other properties or assets (whether real, personal, or mixed) in which the Acquired Companies have or had an interest except in material compliance with all applicable Environmental Laws and Occupational Safety and Health Laws.

(e) There has been no Release or threat of Release by any Acquired Company, or any other Person, of any Hazardous Materials at or from the Facilities or at any other locations where any Hazardous Materials were generated, manufactured, refined, transferred, produced, imported, used, or processed from or by the Facilities, or from or by any other properties and assets (whether real, personal, or mixed) in which any Acquired Company has or had an interest, or, to the Knowledge of the Acquired Companies, from or by any geologically or hydrologically adjoining property except in material compliance with Environmental Laws.

(f) Each Acquired Company has obtained all necessary permits, licenses, certificates and approvals for the operation of the Acquired Company's business and the use of the Facilities as required by Environmental Laws and Occupational Safety and Health Laws.

(g) The Sellers and the Acquired Companies have delivered to Buyers true and complete copies and results of any reports, studies, analyses, tests, or monitoring possessed or initiated by Sellers or any Acquired Company pertaining to Hazardous Materials or Hazardous Activities in, on, or under the Facilities, or concerning compliance by any Acquired Company with Environmental Laws.

2.21 EMPLOYEES.

(a) Part 2.21 of the Disclosure Letter contains a complete and accurate list of the following information as of the last day of the payroll period immediately preceding the Closing Date for each salaried employee or director of the Acquired Companies, including each salaried employee on leave of absence or layoff status: employer; name; job title; current compensation paid or payable and any change in compensation since August 31, 2001; vacation accrued; and service credited for purposes of vesting and eligibility to participate under any Acquired Company's pension, retirement, profit-sharing, thrift-savings, deferred compensation, stock bonus, stock option, cash bonus, employee stock ownership (including investment credit or payroll stock ownership), severance pay, insurance, medical, welfare, or vacation plan, or any other Employee Benefit Plan. Except as set forth on Part 2.21, no Acquired Company is a party to any written contracts of employment with any of its employees (other than union employees governed by a collective bargaining agreement) or any oral contracts of employment which are not terminable on the giving of reasonable notice, and no inducements to accept employment with such Acquired Company were offered to any such employees which have the effect of increasing the period of notice of termination to which any such employee is entitled.

(b) To the Knowledge of the Acquired Companies and Sellers, no current employee or current director of any Acquired Company is a party to, or is otherwise bound by, any agreement or arrangement that in any way adversely affected, affects, or will affect (i) the performance of his duties as an employee or director of the Acquired Companies, or (ii) the ability of any Acquired Company to conduct its business. To the Knowledge of the Acquired Companies and Sellers and based upon due inquiry, no director, officer, or other key employee of an Acquired Company intends to terminate his/her employment with such Acquired Company.

(c) Part 2.21 of the Disclosure Letter contains a complete and accurate list of the following information for each retired employee or director of the Acquired Companies, or their dependents, receiving benefits or scheduled to receive benefits in the future: name, pension benefit, pension option election, retiree medical insurance coverage, retiree life insurance coverage, other benefits, and the duration for which such benefits were promised.

(d) Each Acquired Company has deducted and remitted to the relevant Governmental Body or entity all income taxes, unemployment insurance contributions, Canada Pension Plan contributions, employer health tax remittances and any taxes or deductions or other amounts which it is required by statute or contract to collect and remit to any Governmental Body or other entities entitled to receive payment of such deduction. Each Acquired Company has paid to the date of this Agreement all amounts payable on account of salary, bonus payments and commission to or on behalf of any and all employees.

(e) All levies under the Workers' Compensation Act (British Columbia), or under the workers' compensation legislation of any other jurisdiction where any Acquired Company carries on the business, have been paid by such Acquired Company.

(f) Part 2.21 of the Disclosure Letter contains a complete and accurate list of employees in receipt of or who have claimed benefits under any weekly indemnity, long term disability or workers' compensation plan or arrangement or any other form of disability benefit program.

2.22 LABOR DISPUTES; COMPLIANCE. Other than as set forth in Part 2.22 of the Disclosure Letter,

(a) no Acquired Company has been or is a party to any collective bargaining or other labor Contract;

(b) there is no presently pending or existing, and to the Acquired Companies' Knowledge there is not threatened any strike, slowdown, picketing, work stoppage, labor arbitration, unfair labor practice complaint or proceeding in respect of the grievance of any employee, application or complaint filed by an employee or union with the National Labor Relations Board or any comparable Governmental Body, organizational activity, or other labor dispute against or affecting any of the Acquired Companies or their Facilities, and no application for certification of a collective bargaining agent is pending or to Affiliates' and the Acquired Companies' Knowledge is threatened;

(c) except as specified on Part 2.22 of the Disclosure Letter, there are no pending, threatened or anticipated (a) employment discrimination charges or complaints against or involving any Acquired Company before any federal, state, provincial, or local board, department, commission or agency, or (b) unfair labor practice charges or complaints, under any labor relations legislation, disputes or grievances affecting any Acquired Company.

(d) to the Acquired Companies' Knowledge no event has occurred or circumstance exists that is reasonably likely to provide the basis for any work stoppage or other labor dispute;

(e) there is no lockout of any employees by any Acquired Company, and no such action is contemplated by any Acquired Company;

(f) the Acquired Companies have complied in all material respects with all Legal Requirements relating to employment, equal employment opportunity, non-discrimination, employee leave, immigration, wages, hours, benefits, collective bargaining, the payment of social security and similar taxes, occupational safety and health, and plant closing; and

(g) no Acquired Company is liable for the payment of any taxes, fines, penalties, or other amounts, however designated, for failure to comply with any of the foregoing Legal Requirements.

(h) all Acquired Companies have implemented and published a policy against unlawful harassment which complies with guidance issued by the Equal Employment Opportunity Commission and, to their Knowledge, have enforced such policies.

2.23 CERTAIN PAYMENTS. Neither an Acquired Company nor any director, officer, agent, or employee of an Acquired Company, or any other Person acting for or on behalf of an Acquired Company, has directly or indirectly (a) made any contribution, gift, bribe, rebate, payoff, influence payment, kickback, or other payment to any Person, private or public, regardless of form, whether in money, property, or services in violation of any Legal Requirement (i) to obtain favorable treatment in securing business, (ii) to pay for favorable treatment for business secured, or (iii) to obtain special concessions or for special concessions already obtained, for or in respect of any Acquired Company or any Affiliate of an Acquired Company, or (b) established or maintained any fund or asset that has not been recorded in the books and records of an Acquired Company.

2.24 DISCLOSURE. No notice given pursuant to Section 6.5 will contain any untrue statement or omit to state a material fact necessary to make the statements therein or in this Agreement, in light of the circumstances in which they were made, not misleading.

2.25 RELATIONSHIPS WITH RELATED PERSONS. Except as set forth in Part 2.25 of the Disclosure Letter, no Seller or any Related Person of Sellers has any interest in any property (whether real, personal, or mixed and whether tangible or intangible), used in or pertaining to the Acquired Companies' businesses. Except as set forth in Part 2.25 of the Disclosure Letter, no Seller or any Related Person of Sellers or of the Acquired Companies' owns of record or as a beneficial owner, an equity interest or any other financial or profit interest in any Person that has (i) had business dealings or a material financial interest in any transaction with an Acquired Company other than business dealings or transactions conducted in the Ordinary Course of Business with an Acquired Company at substantially prevailing market prices and on substantially prevailing market terms, or (ii) engaged in competition with an Acquired Company with respect to any line of the products or services of an Acquired Company (a "Competing Business") in any market presently served by any Acquired Company except for less than one percent of the outstanding capital stock of any Competing Business that is publicly traded on any recognized exchange or in the over-the-counter market. Except as set forth in Part 2.25 of the Disclosure Letter, no Seller or any Related Person of Sellers is a party to any Contract with, or has any claim or right against, an Acquired Company.

2.26 BROKERS OR FINDERS. The Acquired Companies have incurred no obligation or liability, contingent or otherwise, for brokerage or finders' fees or agents' commissions or other similar payment in connection with this Agreement.

2.27 CANADIAN SECURITIES LAWS. PSA is a private company within the meaning of the Securities Act (British Columbia) and the sale of the Shares by the Sellers to the Purchasers will be made in compliance with all applicable securities legislation.

Each Seller represents and warrants to Buyers, individually as to such Seller and not with respect to any other Seller, that the following statements are, as of the date hereof and will be as of the Closing Date, true and correct:

2.28 OWNERSHIP OF STOCK. Each Seller owns of record and beneficially the number of Shares of the Acquired Companies indicated opposite such Seller's name in Schedule 2.28 hereto, with full right and authority to sell such Shares hereunder, and upon delivery of such Shares hereunder, the Buyers will receive good title thereto, free and clear of all liens, mortgages, pledges or security interests or the rights of any third person and not subject to any agreements or understandings among any Persons with respect to the voting or transfer of such Shares other than those arising under agreements to which either Buyer is a party.

2.29 EXECUTION, DELIVERY AND ENFORCEABILITY OF AGREEMENT; NO VIOLATION. This Agreement has been duly executed and delivered by or on behalf of the Seller, and at the Closing any other documents required hereunder to be executed and delivered by or on behalf of the Seller will have been duly executed and delivered. This Agreement constitutes the legal, valid and binding obligation of the Seller, enforceable against such Seller in accordance with its terms, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws affecting creditor's rights generally. Any other agreements required hereunder to be executed and delivered by the Seller at Closing will constitute the legal, valid and binding agreements of the Seller executing the same, enforceable against such Seller in accordance with their respective terms, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws affecting creditor's rights generally. Neither the execution of this Agreement nor the consummation of the transactions provided for herein by the Seller will violate, or constitute a default under, or permit the acceleration of maturity of, except to the extent waived, the Seller's organizational Documents or any indentures, mortgages, promissory notes, contracts or agreements to which such Seller is a party or by which such Seller or such Seller's properties are bound. Upon the execution and delivery by the Seller of this Agreement, and the Sellers Releases (collectively, the "Seller's Closing Documents") the Seller's Closing Documents will constitute the legal, valid, and binding obligations of such Seller, enforceable against such Seller in accordance with their respective terms, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws affecting creditor's rights generally.

2.30 BROKERS OR FINDERS. The Sellers have entered into an agreement with ThinkEquity Partners, pursuant to which the Sellers will be obligated to pay a fee from the proceeds received at Closing. The Sellers do hold the Buyers and the Acquired Companies harmless with respect to the obligation to pay such fee.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF BUYERS

Buyers represent and warrant to Sellers as follows:

3.1 ORGANIZATION AND GOOD STANDING. Each of the Buyers is a corporation duly organized, validly existing, and in good standing under the laws of its incorporation. SSI Canada is wholly owned subsidiary of SSI and SSI is not Canadian entity.

3.2 AUTHORITY; NO CONFLICT.

(a) This Agreement constitutes the legal, valid, and binding obligation of Buyers, enforceable against Buyers in accordance with its terms, except as such enforcement may be limited by applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws affecting creditor's rights generally. Buyers have the absolute and unrestricted right, power, and authority to execute and deliver this Agreement and to perform their obligations under this Agreement.

(b) Neither the execution and delivery of this Agreement by Buyers nor the consummation or performance of any of the Contemplated Transactions by Buyers will give any Person the right to prevent, delay, or otherwise interfere with any of the Contemplated Transactions pursuant to:

(i) any provision of Buyers' Organizational Documents;

(ii) any resolution adopted by the board of directors or the stockholders of Buyers;

(iii) any Legal Requirement or Order to which Buyers may be subject; or

(iv) any Contract to which Buyers are a party or by which Buyers may be bound.

Except as set forth in Schedule 3.2, Buyers are not and will not be required to obtain any Consent from any Person in connection with the execution and delivery of this Agreement or the consummation or performance of any of the Contemplated Transactions.

3.3 INVESTMENT INTENT. Buyers are acquiring the Shares for their own account and not with a view to the resale of the Shares or their distribution within the meaning of Section 2(11) of the Securities Act. Buyers understand that none of the Shares has been registered under the Securities Act or state securities laws by reason of a specific exemption from the registration provisions of the Securities Act and applicable state laws which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of Buyers' representations as expressed in this Section 3.3. Buyers are sophisticated business entities whose officers and directors with responsibility for determining whether to acquire the Shares have knowledge and experience in business and financial matters, are experienced in the business of the Acquired Companies and are able to evaluate the merits and risks of acquiring the Shares. Buyers have had the opportunity to obtain information regarding the Acquired Companies as desired to evaluate the merits and the risks inherent in holding the Shares and have been given an opportunity to discuss the acquisition of the Shares and the business and financial condition of the Acquired Companies with officers, directors, and other representatives of Sellers and the Acquired Companies.

3.4 CERTAIN PROCEEDINGS. There is no pending Proceeding that has been commenced against Buyers and that challenges, or may have the effect of preventing, delaying, making illegal, or otherwise interfering with, any of the Contemplated Transactions. To Buyers' Knowledge, no such Proceeding has been threatened.

3.5 BROKERS OR FINDERS. Buyers and their officers and agents have incurred no obligation or liability, contingent or otherwise, for brokerage or finders' fees or agents' commissions or other similar payment in connection with this Agreement.

3.6 FINANCIAL CAPACITY TO CLOSE. The Buyers have adequate cash in the bank or have arranged for the funds necessary to close the transactions contemplated hereby and this transaction is not subject to any financing contingencies on the part of the Buyers.

ARTICLE IV

CONDITIONS PRECEDENT TO THE OBLIGATIONS OF BUYERS

Buyers' obligation to purchase the Shares and to take the other actions required to be taken by Buyers at the Closing is subject to the satisfaction, at or prior to the Closing, of each of the following conditions (any of which may be waived by Buyers, in whole or in part):

4.1 [This section is intentionally deleted.]

4.2 SELLERS' AND THE ACQUIRED COMPANIES' PERFORMANCE.

(a) All of the covenants and obligations that Sellers and the Acquired Companies are required to perform or to comply with pursuant to this Agreement at or prior to the Closing (considered collectively), and each of these covenants and obligations (considered individually), must have been duly performed and complied with in all material respects.

(b) Each Seller or the Acquired Companies, as the case may be, must have delivered each of the documents required to be delivered by such Seller pursuant to Section 1.4.

4.3 CONSENTS. Each of the Consents required to be obtained from any Person or Governmental Body to consummate the transactions contemplated by this Agreement, the failure of which to obtain would have a Material Adverse Effect, must have been obtained and be in full force and effect. Notwithstanding the foregoing, if any Consent has not been obtained which would give the Buyer the right not to close such transactions because of such failure to obtain a material Consent, the Seller may elect to indemnify and hold harmless the Buyer under the terms of Article VIII without application to the Indemnification Deductible, from the damages resulting from such failure and the Buyer shall then be required to proceed with a closing of such transactions notwithstanding that such Consent has not been obtained. The parties agree that in such event, each will work reasonably and in good faith following the Closing to obtain such Consent. All corporate and other action necessary to authorize the execution, delivery and performance of this Agreement by Sellers and the Acquired Companies and the consummation by Sellers and the Acquired Companies of the transactions contemplated by this Agreement shall have been duly and validly taken and Sellers shall have full right and power to sell the Shares and Sellers shall have full right and power to perform their obligations upon the terms provided in this Agreement.

4.4 [This Section is intentionally deleted.]

4.5 NO MATERIAL ADVERSE EFFECT. During the period from August 31, 2001 through the Closing Date, there shall not have been any Material Adverse Effect on the value, assets, and/or business(s) of the Acquired Companies, and/or none of the events described in Section 2.17 of this Agreement shall have occurred. In the event that through the due diligence process, the Buyers determine prior to Closing that a Material Adverse Effect exists which differs from Sellers representations and warranties and the content of the Disclosure Letter, they shall have the option not to consummate the Contemplated Transactions, unless the Sellers are willing to indemnify the Buyers regarding all such matters which compose the Material Adverse Effect(s) under the terms of Article VIII without application of the Indemnification Deductible. The Buyers

4.6 ADDITIONAL DOCUMENTS. Sellers must have caused the following documents to be delivered to Buyers:

(a) an opinion of counsel to the Sellers, dated the Closing Date, in a form which shall be mutually acceptable to the Buyers and the Sellers;

(b) certified copy of a resolution of the board of directors of FCC approving the transfer of the Premier Agendas Shares to the Buyers and the Contemplated Transactions and a resolution of the board of directors of FC Canada approving the transfer of the PSA Shares;

(c) certified copies of the Organizational Documents of each of the Acquired Companies, FC Canada and FCC;

(d) statutory declaration of the FC Canada concerning Canadian qualification of FC Canada or other reasonable and satisfactory evidence that FC Canada is at the Closing Date a corporation in good standing under the laws of Canada within the meaning of the Tax Act;

(e) certificate of the Sellers concerning the matters referred to in Section 4.2 hereof and confirming that all conditions under this Agreement in favor of the Sellers have been either fulfilled or waived;

(f) certificates of incumbency of FCC, FC Canada and each Acquired Company;

(g) share certificates duly endorsed for transfer representing all Shares;

(h) resignation letters from each of the directors of the Acquired Companies, which resignations shall be effective as of the Closing;

(i) a license agreement in the form attached hereto as Exhibit 4.6(i) shall have been entered into between FCC and the Acquired Companies;

(j) such other documents as Buyers may reasonably request for the purpose of (i) evidencing the accuracy of any of Sellers' and the Acquired Companies' representations and warranties, (ii) evidencing the performance by either Sellers or the Acquired Companies of, or the compliance by each Seller and Acquired Company with, any covenant or obligation required to be performed or complied with by such Seller or Acquired Company, (iii) evidencing the satisfaction of any condition referred to in this Article IV, or (iv) otherwise facilitating the consummation or performance of any of the Contemplated Transactions;

Sellers shall cause the following documents to be delivered to Buyers within a reasonable time (not to exceed 60 days) following the Closing:

(k) certificates of good standing of FCC, FC Canada, and each Acquired Company in each jurisdiction in which they are qualified to do business.

4.7 NO PROCEEDINGS. There shall not be in effect any Legal Requirement or any injunction or other Order that prohibits the sale of the Shares by the Sellers to the Buyers.

4.8 [This Section was intentionally deleted.]

4.9 NO PROHIBITION. Neither the consummation nor the performance of any of the Contemplated Transactions will, directly or indirectly (with or without notice or lapse of time), materially contravene, or conflict with, or result in a material violation of, or cause either Buyer or any Person affiliated with either Buyer to suffer any Material Adverse Effect under, (a) any applicable Legal Requirement or Order, or (b) any Legal Requirement or Order that has been published, introduced, or otherwise proposed by or before any Governmental Body.

4.10 COMPLIANCE WITH LAW. There shall have been obtained any and all Governmental Authorizations which counsel for Buyers may reasonably deem necessary or appropriate so that consummation of the transactions contemplated by this Agreement and the Transaction Agreements will be in compliance with Legal Requirements and the failure of which to obtain would have a Material Adverse Effect on the Buyers or the Acquired Companies. There shall

have been obtained, from all appropriate Governmental Bodies, such Consents as are required to permit the change of ownership and due registration of the Shares contemplated by this Agreement, including, without limitation, the following:

(a) Investment Canada - The Buyers shall have either received:

(i) a receipt issued under subsection 13(1) of the Investment Canada Act certifying that a complete notice in prescribed form in respect of the acquisition has been received and advising that such acquisition is not reviewable or a notice from the Minister of Industry issued under sections 21, 22 or 23 of the Investment Canada Act, indicating that such Minister is, or is deemed to be, satisfied that the acquisition is likely to be of net benefit to Canada;

(ii) an opinion of the Minister of Industry issued under subsection 37(2) of the Investment Canada Act indicating that such Minister is of the opinion that the Investment Canada Act is not applicable to the transactions contemplated herein; or

(iii) an opinion of a reputable Canadian law firm engaged by Seller that the Investment Canada Act does not apply to the transaction.

4.11 NOTICES. Sellers will give any notices to third parties required by agreements with such third parties where the failure to give or such notice would have a Material Adverse Effect or pursuant to Legal Requirements where the failure to give such notice would have Material Adverse Effect. The parties will have filed with the Federal Trade Commission and the Antitrust Division of the U. S. Department of Justice all filings required by the HSR Act and shall have received a notice from the Federal Trade Commission and the United States Department of Justice that such transaction may proceed.

4.12 [This Section was intentionally deleted.]

4.13 DISCLOSURE LETTER. The Sellers and the Acquired Companies shall have provided the Buyers full and complete and final copies of the Disclosure Letter including supplements thereto as limited under the terms of Section 6.8. Further in the event that under the terms of Section 6.8 herein, the Sellers shall submit supplements to the Disclosure Letter to the Buyers, which in the aggregate describe matters which do in the aggregate indicate Material Adverse Change(s) in the value, assets and/or business(s) of the Acquired Companies, then, unless the Sellers are willing to indemnify the Buyers regarding such Material Adverse Change(s) under the terms of Article VIII without application to the Indemnification Deductible, the Buyers shall not be required to conclude the Contemplated Transactions.

4.14 SPECIAL CIRCUMSTANCES. Notwithstanding any other provision of this Article IV or Section 6.8 to the contrary, if prior to the Closing, Buyers shall discover events, conditions, or circumstances, which (i) individually or in the aggregate would have a direct financial consequences or affect the value of the Acquired Companies to the Buyers or the Acquired Companies of $10,000,000 or more and which constitute a change or breach of the representations of the Sellers set forth in Article II or in the Disclosure Letter delivered at the time of the execution of this Agreement and as supplemented in accordance with Section 6.8, or (ii) reveal that the Acquired Companies have engaged in practices that (A) violate public policy and such violation would have a material damaging impact on the reputation or business of the Buyers or the Acquired Companies; or (B) violate the felony criminal statutes of any jurisdiction; or (C) the sale of products or services of any Acquired Company is enjoined and such injunction shall have a Material Adverse Effect, then in the event of the occurrence of any of the foregoing, Buyers shall have the option to (x) require Seller, as a condition of Closing, to indemnify Buyers and the Acquired Companies in a manner reasonably acceptable to the Buyers, against such events or circumstances, or (y) in the alternative not to close the Contemplated Transactions. Sellers shall not be obligated to indemnify Buyers or the Acquired Companies against such events or circumstances, provided that if Sellers are unwilling to indemnify Buyers, Buyers' sole options shall be to proceed with the Closing or to terminate this Agreement and not close the Contemplated Transactions. If Buyers elect to terminate this Agreement and not close the Contemplated Transactions pursuant to the terms of this Section 4.14, then in such event, Buyers shall have no liability to Sellers for not closing the Contemplated Transactions.

ARTICLE V

CONDITIONS PRECEDENT TO THE OBLIGATIONS OF SELLERS

Sellers' obligation to sell the Shares and to take the other actions required to be taken by Sellers at the Closing is subject to the satisfaction, at or prior to the Closing, of each of the following conditions (any of which may be waived by the Sellers, in whole or in part):

5.1 ACCURACY OF REPRESENTATIONS. All of Buyers' representations and warranties in this Agreement (considered collectively), and each of these representations and warranties (considered individually), must have been accurate in all material respects as of the date of this Agreement and must be accurate in all material respects as of the Closing Date as if made on the Closing Date.

5.2 BUYER'S PERFORMANCE.

(a) All of the covenants and obligations that Buyers are required to perform or to comply with pursuant to this Agreement at or prior to the Closing (considered collectively), and each of these covenants and obligations (considered individually), must have been performed and complied with in all material respects.

(b) Buyers must have delivered each of the documents required to be delivered by Buyers pursuant to Section 1.4 and must have made the cash payments required to be made by Buyers pursuant to Section 1.4.

5.3 ADDITIONAL DOCUMENTS. Buyers must have delivered to Sellers such other documents as Sellers may reasonably request for the purpose of (i) enabling their counsel to provide the opinion referred to in Section 4.6, (ii) evidencing the accuracy of any representation or warranty of Buyers, (iii) evidencing the performance by Buyers of, or the compliance by Buyers with, any covenant or obligation required to be performed or complied with by Buyers, (iv) evidencing the satisfaction of any condition referred to in this Article 5, or (v) otherwise facilitating the consummation of any of the Contemplated Transactions.

5.4 NO INJUNCTION. There must not be in effect any Legal Requirement or any injunction or other Order that prohibits the sale of the Shares by Sellers to Buyers.

5.5 BANK ONE APPROVAL. The Sellers shall receive the approval of Bank One, National Association as the primary financial lender of the Sellers, to the Contemplated Transactions.

5.6 JOINT MARKETING AGREEMENT. The Sellers and Buyers shall have entered into and delivered a Joint Marketing Agreement as of the Closing Date in a form that is mutually agreeable to the Buyers and the Sellers. The Sellers and the Buyers shall act reasonably and in good faith in the negotiation of this Joint Marketing Agreement.

ARTICLE VI

COVENANTS OF THE SELLERS

6.1 CONDUCT OF BUSINESS PRIOR TO CLOSING. Between the date of this Agreement and the Closing Date, the Acquired Companies will, unless the Acquired Companies obtain the written consent of Buyers (which shall not be unreasonably withheld or delayed):

(a) conduct the business of the Acquired Companies only in the Ordinary Course of Business;

(b) use their Best Efforts to preserve intact the current business organization of the Acquired Companies, keep available the services of the current officers, employees, and agents of the Acquired Companies, and maintain the relations and good will with suppliers, customers, landlords, creditors, employees, agents, and others having business relationships with the Acquired Companies;

(c) confer with Buyers concerning operational matters of a material nature;

(d) not make or commit to make any capital expenditure in excess of $100,000.00;

(e) report regularly to Buyers concerning the status of the business, operations, and finances of the Acquired Companies;

(f) continue in force and in good standing all existing insurance maintained by it;

(g) comply with all applicable Legal Requirements; and

(h) comply with all restrictive covenants described in Article I of this Agreement.

6.2 ACCESS FOR INVESTIGATION. Between the date of this Agreement and the Closing Date, the Sellers, the Acquired Companies and their Representatives will, (a) afford Buyers and their representatives free and full access to the Acquired Companies' management to discuss the Acquired Companies' business operations, assets, liabilities, actual or potential litigation and claims, properties and prospects with the Acquired Companies' employees, agents, accountants, attorneys, customers, suppliers, and other persons having business dealings with the Acquired Companies or knowledge of the issues, (b) afford Buyers and their representatives full and free access to the Acquired Companies properties (including subsurface testing), contracts, books and records, and other documents and data, (c) furnish Buyer and Buyers' advisors and representatives with copies of all such contracts, books and records, and other existing documents and data as Buyers may reasonably request, and (d) furnish Buyers and Buyers' Advisors and representatives with such additional financial, operating, and other data and information as Buyers may reasonably request in the possession or control of any Acquired Company or Seller, or as to which any of the Sellers or the Acquired Companies have Knowledge.

6.3 NEGATIVE COVENANT. Except as otherwise expressly permitted by this Agreement, between the date of this Agreement and the Closing Date, the Sellers and the Acquired Companies will not, without the prior consent of Buyer, which shall not be unreasonably withheld or delayed, take any affirmative action, or fail to take any reasonable action within their or its control, as a result of which any of the changes or events listed in Section 2.17 are likely to occur.

6.4 REQUIRED APPROVALS. As promptly as practicable after the date of this Agreement, the Sellers and the Acquired Companies will make all filings required by Legal Requirements to be made by it in order to consummate the Contemplated Transactions (including all filings under the HSR Act). Between the date of this Agreement and the Closing Date, the Sellers and the Acquired Companies will (a) cooperate with Buyers with respect to all filings that Buyers elect to make (as may not be detrimental to the Sellers) or is required by Legal Requirements to make in connection with the Contemplated Transactions, and (b) cooperate with Buyer in obtaining all consents identified in Schedule 3.2 (including taking all actions requested by Buyer to cause early termination or any applicable waiting period under the HSR Act).

6.5 NOTIFICATION. Between the date of this Agreement and the Closing Date, each of the Acquired Companies and each Seller will promptly notify Buyers in writing if such Seller or the Acquired Companies becomes aware of any fact or condition that causes or constitutes a Breach of any representations and warranties of the Acquired Companies, and the Sellers as of the date of this Agreement, or if such Seller or an Acquired Company becomes aware of the occurrence after the date of this Agreement of any fact or condition that would (except as expressly contemplated by this Agreement) cause or constitute a Breach of any such representation or warranty had such representation or warranty been made as of the time of occurrence or discovery of such fact or condition. During the same period, the Acquired Companies will promptly notify Buyer of the occurrence of any Breach of any covenant in this Article VI or of the occurrence of any event that may make the satisfaction of the conditions in Article IV or V impossible or unlikely.

6.6 NO NEGOTIATION. Each of the Sellers and the Acquired Companies will, and will cause each of their Representatives not to, directly or indirectly solicit, initiate, or encourage any inquiries or proposals from, discuss or negotiate with, provide any non-public information to, or consider the merits of any unsolicited inquiries or proposals from, any Person (other than Buyers) relating to any transaction involving the sale of the business or assets (other than in the

Ordinary Course of Business) of the Acquired Companies, or any of the capital stock of the Acquired Companies, or any merger, consolidation, business combination, or similar transaction involving the Acquired Companies.

6.7 BEST EFFORTS. Between the date of this Agreement and the Closing Date, Sellers and the Acquired Companies will use their Best Efforts to cause the conditions in Articles IV and VI to be satisfied.

6.8 SUPPLEMENTS TO DISCLOSURE LETTER. Sellers and the Acquired Companies shall have the right and obligation, from time to time, on or prior to the Closing, to supplement the material set forth in the Disclosure Letter only if such supplements are based upon events that have occurred subsequent to the execution and delivery of this Agreement and up to and including the Closing Date. In the event that such supplements in the aggregate describe matters which do not in the aggregate indicate Material Adverse Change(s) in the value, assets and/or business(s) of the Acquired Companies, then such supplements may be submitted by the Sellers to the Buyers without the approval of the Buyers and shall be effective amendments to the Disclosure Letter. In the event that such supplements in the aggregate describe matters which do in the aggregate indicate Material Adverse Change(s) in the value, assets and/or business(s) of the Acquired Companies, then the Sellers acknowledge that they may, as provided in Section 4.13 hereof, but shall not be obligated to, indemnify the Buyers from the effects of such supplements. If Sellers are willing to make such an indemnity, such supplements shall be informational only and without impact regarding the level of liability of the Sellers under the terms of this Agreement (including but not limited to Article VIII herein without the application of the Indemnification Deductible). Further if Sellers are willing to make such an indemnity, Buyers may not use such disclosures as a reason for not closing the Contemplated Transactions. In the event that the Sellers are unwilling to indemnify the Buyers with respect to the matters raised in such supplements and Buyers then elect to consummate the Contemplated Transactions such election shall be a waiver of the indemnification by the Sellers of such matters under the terms of Article VIII of this Agreement.

6.9 PAYMENT OF INDEBTEDNESS BY RELATED PERSONS. Except as expressly provided in this Agreement or as approved by the Buyers, Sellers will cause all indebtedness of any Seller or Related Person of a Seller to an Acquired Company to be paid in full no later than ten (10) days after Closing.

6.10 PRIOR TAXATION PERIODS. The Sellers shall jointly and severally indemnify and hold harmless each Acquired Company and the Buyers in respect of liability of each Acquired Company for Taxes relating to all financing periods of the Acquired Companies commencing prior to the Closing Date and ending on the Closing Date. The Buyer shall be responsible for all Taxes of the Acquired Companies attributable to periods on or after the Closing Date. If any of the Acquired Companies receives an assessment or reassessment in respect of which the indemnity of the Sellers may extend, the Buyers shall cause the Acquired Company so assessed or reassessed, as soon as practicable after receipt thereof to deliver to the Sellers a copy of such assessment or reassessment and the Buyers shall notify the Sellers of its claim, if any, against the Sellers in accordance with the provisions of Article VIII hereof. The provisions of Article VIII and Section 7.6 shall apply with regard to the right of the Sellers to contest any assessment or reassessment relating to the Acquired Companies prior to the Closing Date.

6.11 CANCELLATION OF INTERCOMPANY ACCOUNTS. As of the Closing the Sellers shall cancel all intercompany payables and receivables due by and among the Sellers and the Acquired Companies. This cancellation shall include but not be limited to the cancellation of the Notes Payable to FCC.

6.12 RETAINED CLAIMS. Notwithstanding the foregoing, both prior to and after Closing, Sellers shall retain all liability with respect to, have sole authority for, and responsibility to act in the defense, settlement, or other resolution of Black et al. v. The Premier Company and Franklin Covey Company (Civil Action No. 01-4317, pending in the Federal District Court of the Eastern District of Pennsylvania), Alexander v. Premier Graphics (37 ECR-0037-01-2, pending before the State of Washington Human Rights Commission and Equal Employment Opportunity Commission) any successor or related claims and any claims alleging unlawful discrimination in employment against any of the Sellers and/or the Acquired Companies (collectively "Retained Claims"). The Sellers shall have no obligation to consult with Buyers concerning, such defense, settlement, or resolution of the Retained Claims. Following closing, Buyer shall provide to the Sellers, following reasonable notice, but without the necessity of service of legal process by Sellers, with access to such records, generated prior to the Closing Date and access to its employees as may be reasonably requested by Sellers in defense, settlement, or resolution of the Retained Claims.

6.13 ADULT LEADERSHIP TRAINING PROGRAM. The Sellers shall as of the Closing, retain the operations (including expenses) and assets of the Acquired Companies related to the Adult Leadership Training Program.

ARTICLE VII

COVENANTS OF THE BUYERS

7.1 CONFIDENTIALITY. The Buyers shall keep confidential all confidential technology and any other confidential information (unless readily available from public or published information or sources or required to be disclosed by law) obtained from either the Sellers or any Acquired Company. If this Agreement is terminated without completion of the transactions contemplated herein, then, promptly after such termination, all documents, working papers and other written material obtained by the Buyers from the Sellers or any Acquired Company in connection with this Agreement shall be returned by the Buyer to the Party from whom such materials were obtained. Notwithstanding any provision of this Agreement to the contrary, this Agreement does not terminate or supercede the terms of that certain Confidentiality Agreement dated October 12, 2001 between FCC and SSI, which agreement shall remain in full force and effect, except as provided by law. Such Confidentiality Agreement shall be considered null and void upon the consummation of the Contemplated Transactions.

7.2 APPROVALS OF GOVERNMENTAL BODIES. As promptly as practicable after the date of this Agreement, Buyer will, and will cause each of its Related Persons to, make all filings required by Legal requirements to be made by them to consummate the Contemplated Transactions (including all filings under the HSR Act). Between the date of this Agreement and the Closing Date, Buyers will, and will cause each Related Person to (a) cooperate with Sellers with respect to all filings that Sellers are required by Legal Requirements to make in connection with the Contemplated Transactions, and (b) cooperate with Sellers in obtaining all consents identified in Part 3.2 of the Disclosure Letter.

7.3 BEST EFFORTS. Between the date of this Agreement and the Closing Date, Buyers will use their Best Efforts to cause the conditions in Article IV and V to be satisfied.

7.4 INVESTMENT CANADA NOTIFICATION. Before or immediately after the execution and delivery of this Agreement, the Buyers shall provide the required notification of the acquisition of control of PSA to SSI Canada, if any, under the Investment Canada Act in accordance with the provisions thereof and the regulations thereunder and shall thereafter promptly respond to all enquiries, corrections or other matters which may from time to time be required or requested from the Buyers by Investment Canada.

7.5 ss.338(h)(10) ELECTION. The Buyers do covenant to the Sellers that they shall not elect underss.338(h)(10) of the Code regarding the Acquired Companies and the Contemplated Transactions.

7.6 TAX MATTERS

(a) Returns.

(i) Tax Periods Ending Before the Closing Date. Buyers shall prepare and file or cause the Acquired Companies to prepare and file all Tax Returns (including, without limitation, all income Tax Returns relating to income Taxes imposed by Canadian Governmental Bodies) for the Acquired Companies for all periods ending on or before the Closing Date that are to be filed after the Closing Date. Sellers shall prepare and file all income Tax Returns of the Acquired Companies relating to income Taxes imposed by the United States of America and each state therein (such United States federal and state income Tax Returns being “US Returns”) for such periods that are to be filed after the Closing Date. Buyers shall allow Sellers to review and comment on each such Tax Return prepared by Buyers and shall revise such Tax Returns as Sellers reasonably request. The Sellers shall reimburse Buyers for all Taxes of the Acquired Companies paid for any tax year, tax period or portion thereof ending on or before the Closing Date, but only to the extent such Taxes exceed the amount of Taxes in the reserve for Tax liability reflected in the Balance Sheet and as updated through the Closing Date on the Closing Balance Sheet. Buyers and the Acquired Companies shall reasonably cooperate with and provide information relating the Acquired Companies to Sellers in connection with the preparation of each US Return.

(ii) Tax Periods Beginning Before and Ending After the Closing Date. Buyers shall prepare and file or cause to be prepared and filed all Tax Returns of the Acquired Companies for Tax periods which begin before the Closing Date and end after the Closing Date. Sellers shall pay to Buyers the amount equal to the portion of such Taxes which relates to the portion of such Tax period ending on the Closing Date to the extent such Taxes are not reflected in the reserve for Tax liability shown in the Closing Balance Sheet. For purposes of this Section, in the case of any Taxes that are imposed on a periodic basis and are payable for a Tax period that includes (but does not end on) the Closing Date, the portion of such Tax which relates to the portion of such Tax period ending on the Closing Date shall be deemed equal to the amount which would be payable if the relevant Tax period ended on the Closing Date. Any credits relating to a Tax period that begins before and ends after the Closing Date shall be taken into account as though the relevant Tax period ended on the Closing Date. All determinations necessary to give effect to the foregoing allocations shall be made in a manner consistent with prior practice of the Acquired Companies.

(iii) Tax Periods Beginning After the Closing Date. The Buyer and the acquired Companies shall be liable for, and shall indemnify and hold the Sellers harmless against any and all Taxes imposed on the Acquired Companies relating or apportioned to any portion of any taxable year thereof ending after the Closing Date.

(b) Refunds or Credits. The Buyers and the Acquired Companies shall promptly pay to the Sellers any refunds or credits of Taxes for which the Sellers may be liable under Section 7.6(a) hereof or that relate to Tax periods or portions thereof ending on or prior to the Closing Date. For purposes of this Section 7.6(b), the term "refund" shall include a reduction in Taxes and the use of an overpayment of Taxes as an audit or other Tax offset and receipt of a refund shall occur upon the filing of a return or an adjustment thereto using such reduction, overpayment or offset, or upon the receipt of cash. Upon the reasonable request of either Seller, Buyers shall prepare and file, or cause to be prepared and filed, all claims for refunds relating to such Taxes. Buyers shall be entitled to all other refunds and credits of Taxes; provided, however, they will not allow the amendment of any of the Acquired Companies' Tax Returns relating to any Taxes for a period (or portion thereof) ending on or prior to the Closing Date or the carryback of an item to a period ending prior to Closing without the Sellers' consent (which will not be unreasonably withheld).

(c) Mutual Cooperation. As soon as practicable, but in any event within 20 days after either Sellers’ or Buyers’ request, as the case may be, Buyers shall deliver to Sellers or Sellers shall deliver to Buyers, as the case may be, such information and other data relating to the Tax Returns and Taxes of the Acquired Companies and shall provide such other assistance as may reasonably be requested, to cause the completion and filing of all Tax Returns or to respond to audits by any taxing authorities with respect to any Tax Returns or taxable periods or to otherwise enable Sellers, Buyers or the Acquired Companies to satisfy their accounting or Tax requirements. For a period of five years from and after the Closing, Buyers and Sellers shall, and shall cause their affiliates to, maintain and make available to the other party, on such other party’s reasonable request, copies of any and all information, books and records referred to in this Section 7.6(c). After such five-year period, Buyers or Sellers may dispose of such information, books and records, provided that prior to such disposition, Buyers or Sellers shall give the other party the opportunity to take possession of such information, books and records.

(d) Contests. Whenever any Governmental Body asserts a claim, makes an assessment, or otherwise disputes the amount of Taxes for which either Seller is or may be liable under this Agreement, Buyers shall, if informed of such an assertion, promptly inform Sellers, and Sellers shall have the right to control any resulting proceedings and to determine whether and when to settle any such claim, assessment or dispute to the extent such proceedings or determinations affect the amount of Taxes for which either Seller may be liable under the Agreement. Whenever any Governmental Body asserts a claim, makes an assessment or otherwise disputes the amount of Taxes for which either Buyer is liable under this Agreement, Buyers shall have the right to control any resulting proceedings and to determine whether and when to settle any such claim, assessment or dispute, except to the extent such proceedings affect the amount of Taxes for which either Seller is liable under this Agreement.

7.7 TRANSFERS OF THE SHARES. The Buyers shall not effect any offer or sale of the Shares, or any portion thereof or interest therein, except pursuant to an effective registration statement under the Securities Act and in compliance with other applicable federal, state and provincial securities laws or in reliance on a valid exemption from the registration requirements of such laws.

ARTICLE VIII

INDEMNIFICATION

8.1 GENERAL INDEMNIFICATION BY THE SELLERS. Each of the Sellers do jointly and severally covenant and agree to indemnify, defend, protect and hold harmless the Buyers and their officers, directors, employees, stockholders, assigns, successors and affiliates (individually, an "Indemnified Party" and collectively, "Indemnified Parties") from, against and in respect of all liabilities, losses, claims, damages (excluding any incidental, special or consequential damages, but including any diminution of value damages), punitive damages, causes of action, lawsuits, administrative proceedings (including informal proceedings), investigations, audits, demands, assessments, adjustments, judgments, settlement payments, deficiencies, penalties, fines, interest (including interest from the date of such damages), costs and expenses (including without limitation reasonable attorneys' fees and disbursements), and diminution in value, relating to the Acquired Companies, whether or not involving a third party claim (collectively, "Damages") suffered, sustained, incurred or paid by any Indemnified Party in connection with, resulting from, or arising out of, directly or indirectly:

(a) any breach of any representation or warranty of the Sellers set forth in this Agreement subject to content of the Disclosure Letter and its supplements as limited by the terms of Section 6.8 of this Agreement or certificate delivered pursuant to Section 1.4(a)(iii) delivered by or on behalf of the Sellers in connection herewith; or

(b) any nonfulfillment of any covenant or agreement on the part of the Sellers set forth in this Agreement; or

(c) any claim for fees or commissions of any broker or agent employed or alleged to have been employed by the Sellers; or

(d) any claim regarding representations and warranties under Sections 2.16 (including Retained Claims) or 2.20 of this Agreement regardless of the contents of the Disclosure Letter and/or any supplements thereto as same may relate to these Sections. Notwithstanding anything to the contrary herein, such information in the Disclosure Letter regarding these Sections shall be informational only and shall not effect the liability of the Sellers under the terms of this Agreement; or

(e) any insured claims based upon insurance as described under Section 2.19 herein provided by the Sellers to the Acquired Companies subject to the lesser of (i) the currently in effect deductible or (ii) $25,000 per occurrence and/or their employees or Employee Benefits as described under Section 2.14 herein provided by the Sellers to the Acquired Companies and/or their employees which cease as of the Closing for events occurring prior to the Closing Date whether known or unknown; or

(f) any and all Damages incident to any of the foregoing or to the enforcement of this Article 8.

The right to indemnification, payment of Damages or other remedy based on such representations, warranties, covenants, and obligations will not be affected by any investigation conducted with respect to, or any knowledge acquired (or capable of being acquired) at any time, whether before or after the execution and delivery of this Agreement or the Closing Date, with respect to the accuracy or inaccuracy of or compliance with, any such representation, warranty, covenant, or obligation. The waiver of any condition based on the accuracy of any representation or warranty, or on the performance of or compliance with any covenant or obligation, will not affect the right to indemnification, payment of Damages, or other remedy based on such representations, warranties, covenants, and obligations.

8.2 LIMITATION AND EXPIRATION. Notwithstanding the above:

(a) there shall be no liability for indemnification under Section 8.1 unless, the aggregate amount of Damages exceeds $1,000,000.00 (the "Indemnification Deductible"), whereupon Sellers shall only be liable under this Article 8 for the total amount of Damages in excess of the Indemnification Deductible; provided, however, that the Indemnification Deductible shall not apply to (i) payments permitted under Section 1.5 of this Agreement; (ii) any supplements to the Disclosure Letter which in the aggregate indicate a Material Adverse Effect relating to the value, assets, and/or business of the Acquired Companies and for which the Sellers have agreed to indemnify the Buyers; (iii) compliance issues regarding the covenants listed in Section 6.10 of this Agreement; (iv) claims under Section 8.1(d); and (v) the lesser of the policy deductible or $25,000 for insurance claims as described under Section 8.1(e) of this Agreement;

(b) the aggregate amount of the Sellers' liability under this Article 8 shall not exceed $100,000,000.00;

(c) the indemnification obligations under this Article 8, or in any certificate or writing furnished in connection herewith, shall terminate at the date that is the later of clause (i) or (ii) of this Section 8.2(c):

(i) (A) with respect to claims relating to or arising out of breaches of the covenant relating to tax matters contained in Section 6.10 of this Agreement or breaches of the warranties of Sections 2.12 and 2.15 of this Agreement the date that is six (6) months after the expiration of the longest applicable federal, state or provincial statute of limitation (including mutually agreed-upon extensions thereof), or in cases in which no statute of limitations applies, five (5) years from the Closing Date, or (B) with respect to representations and warranties made in Section 2.20 seven (7) years after the Closing Date, or (C) with respect to all claims other than those referred to in clause (i)of this Section 8.2(c), twenty-four months (24) months after the Closing Date (the “Twenty-Four Month Anniversary”); or

(ii) the final resolution of claims or demands pending as of the relevant dates described in clause (i) of this Section 8.2(c) for which Buyer has made a written indemnification claim against Sellers pursuant to the provisions of Section 8.4 hereof (such claims referred to as “Pending Claims”).

8.3 INDEMNIFICATION BY BUYERS. Buyers will, jointly and severally, indemnify and hold harmless Sellers, and will pay to Sellers the amount of any Damages arising, directly or indirectly, from or in connection with (a) any Breach of any representation or warranty made by Buyers in this Agreement or in any certificate delivered by Buyers pursuant to this Agreement, (b) any Breach by Buyers of any covenant or obligation of Buyers in this Agreement, (c) any claim by any Person for brokerage or finder's fees or commissions or similar payments based upon any agreement or understanding alleged to have been made by such Person with Buyers (or any Person acting on its behalf) in connection with any of the Contemplated Transactions, or the claim made against the Sellers relating to any guaranty issued by the Sellers regarding an obligation of the Acquired Companies which has accrued and occurred following the Closing Date.

8.4 INDEMNIFICATION PROCEDURES. All claims or demands for indemnification under this Article 8 ("Claims") shall be asserted and resolved as follows:

(a) In the event that any Indemnified Party has a Claim against any party obligated to provide indemnification pursuant to Section 8.1 or Section 8.3 hereof (the "Indemnifying Party") which does not involve a Claim being asserted against or sought to be collected by a third party against an Indemnifying Party, the Indemnified Party shall, within thirty (30) days of receipt of a written demand for a Claim, notify the Indemnifying Party of such Claim, specifying the nature of such Claim and the amount or the estimated amount thereof to the extent then feasible (the "Claim Notice"). If the Indemnifying Party does not notify the Indemnified Party within thirty (30) days after the date of delivery of the Claim Notice that the Indemnifying Party disputes such Claim, with a detailed statement of the basis of such position, the amount of such Claim shall be conclusively deemed a liability of the Indemnifying Party hereunder. In case an objection is made in writing in accordance with this Section 8.4(a), the Indemnified Party shall respond in a written statement to the objection within thirty (30) days and, for sixty (60) days thereafter, attempt in good faith to agree upon the rights of the respective parties with respect to each of such Claims (and, if the parties should so agree, a memorandum setting forth such agreement shall be prepared and signed by both parties).

(b) (i) In the event that any Claim for which the Indemnifying Party would be liable to an Indemnified Party hereunder is asserted against an Indemnified Party by a third party (a "Third Party Claim"), the Indemnified Party shall deliver a Claim Notice to the Indemnifying Party. The Indemnifying Party shall have thirty (30) days from date of delivery of the Claim Notice to notify the Indemnified Party (A) whether the Indemnifying Party disputes liability to the Indemnified Party hereunder with respect to the Third Party Claim, and, if so, the basis for such a dispute, and (B) if such party does not dispute liability, whether or not the Indemnifying Party desires, at the sole cost and expense of the Indemnifying Party, to defend against the Third Party Claim, provided that the Indemnified Party is hereby authorized (but not obligated), prior to and during the Notice Period, to file any motion, answer or other pleading and to take any other action which the Indemnified Party shall deem necessary or appropriate to protect the Indemnified Party's interests.

(ii) In the event that the Indemnifying Party notifies the Indemnified Party within the Notice Period that the Indemnifying Party does not dispute the Indemnifying Party’s obligation to indemnify with respect to the Third Party Claim, the Indemnifying Party shall defend the Indemnified Party against such Third Party Claim by appropriate proceedings, provided that, unless the Indemnified Party otherwise agrees in writing, the Indemnifying Party may not settle any Third Party Claim (in whole or in part) if such settlement does not include a complete and unconditional release of the Indemnified Party. If the Indemnified Party desires to participate in, but not control, any such defense or settlement the Indemnified Party may do so at its sole cost and expense. If the Indemnifying Party elects not to defend the Indemnified Party against a Third Party Claim, whether by failure of such party to give the Indemnified Party timely notice as provided herein or otherwise, then the Indemnified Party, without waiving any rights against such party, may settle or defend against such Third Party Claim in the Indemnified Party’s discretion and if the Indemnifying Party is obligated to indemnify the Indemnified Party pursuant to the terms of this Agreement, the Indemnified Party shall be entitled to indemnity as provided in this Agreement.

(iii) If at any time, in the reasonable opinion of the Indemnified Party, notice of which shall be given in writing to the Indemnifying Party, any Third Party Claim seeks material prospective relief which could have a material adverse effect on any Indemnified Party or any subsidiary, the Indemnified Party shall have the right to control or assume (as the case may be) the defense of any such Third Party Claim and the amount of any judgment or settlement and the reasonable costs and expenses of defense shall be included as part of the indemnification obligations of the Indemnifying Party hereunder if the Indemnifying Party were liable for such amounts under the provisions of this Agreement. If the Indemnified Party elects to exercise such right, the Indemnifying Party shall have the right to participate in and control, the defense of such Third Party Claim at the sole cost and expense of the Indemnified Party.

(c) Nothing herein shall be deemed to prevent the Indemnified Party from making a Claim under a Claim Notice, and an Indemnified Party may make a Claim hereunder, for Damages, provided the Claim Notice sets forth the specific basis for any such Claim or demand to the extent then feasible and the Indemnified Party has reasonable grounds to believe that such Claim may be made.

(d) The Indemnified Party agrees to give the Indemnifying Party written notice of any actual, threatened or possible claim or demand which may give rise to a right of indemnification within fifteen (15) days of becoming aware of the foregoing.

(e) The parties will make appropriate adjustments for any Tax benefits and/or Tax detriments (excluding the tax effect of deductions for amounts not paid by the Seller due to the Indemnification Deductible) (calculated at a tax rate of 40%) or insurance proceeds in determining the amount of any indemnification obligation under this Article 8, provided that no Indemnified Party shall be obligated to continue pursuing any payment pursuant to the terms of any insurance policy.

8.5 REMEDIES CUMULATIVE. The remedies set forth in this Article 8 are the sole and exclusive remedy of the Buyers with respect to a breach of any representation or warranty hereunder. The provisions of this Section 8 shall be the exclusive basis for asserting claims against or the imposition of liability on the Sellers in connection with this Agreement and/or the transactions contemplated hereby whether based on contract, tort, statute or otherwise, with the exception of issues of fraud and/or seeking injunctive relief.

ARTICLE IX

MISCELLANEOUS

9.1 EXPENSES. Except as otherwise expressly provided in this Agreement, each party to this Agreement will bear its respective expenses incurred in connection with the preparation, execution, and performance of this Agreement and the Contemplated Transactions, including all fees and expenses of agents, representatives, counsel, and accountants. Buyers will be responsible for payment of their own expenses and the Sellers will be responsible for payment of their respective expenses. No expenses of this transaction shall be charged to or be a liability of the Acquired Companies.

9.2 AMENDMENT AND MODIFICATION. This Agreement may be amended, modified, terminated, rescinded or supplemented only by written agreement of the parties hereto.

9.3 WAIVER; CONSENTS. The rights and remedies of the parties to this Agreement are cumulative and not alternative. Any failure of a party to comply with any obligation, covenant, agreement or condition herein may be waived by each party affected thereby only by a written instrument signed by the party granting such waiver. No waiver, or failure to insist upon strict compliance, by any party of any condition or any breach of any obligation, term, covenant, representation, warranty or agreement contained in this Agreement, in any one or more instances, shall be construed to be a waiver of, or estoppel with respect to, any other condition or any other breach of the same or any other obligation, term, covenant, representation, warranty or agreement. Whenever this Agreement requires or permits consent by or on behalf of any party hereto, such consent shall be given in writing in a manner consistent with the requirements for a waiver.

9.4 FURTHER ASSURANCES. The parties hereto agree (i) to furnish upon request to each other such further information, (ii) to execute and deliver to each other such other documents, and (iii) to do such other acts and things, all as another party hereto may at any time reasonably request, including before, at and after the Closing, for the purpose of carrying out the intent of this Agreement and the documents referred to herein.

9.5 DISCLOSURE LETTER.

(a) The disclosures in the Disclosure Letter, and those in any Supplement thereto, must relate only to the representations and warranties in the Section of the Agreement to which they expressly relate and not to any other representation or warranty in this Agreement.

(b) In the event of any inconsistency between the statements in the body of this Agreement and those in the Disclosure Letter (other than an exception expressly set forth as such in the Disclosure Letter with respect to a specifically identified representation or warranty), the statements in the body of this Agreement will control.

9.6 NOTICES. All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given when (i) delivered personally, (ii) sent by telecopier (with receipt confirmed), provided that a copy is mailed by registered or certified mail, return receipt requested within two business days after being sent by telecopier, (iii) received by the addressee, if sent by Express Mail, Federal Express or other express delivery service (receipt requested), or (iv) three business days after being sent by registered or certified mail, return receipt requested, in each case to the other party at the following addresses and telecopier numbers (or to such other address or telecopier number for a party as shall be specified by like notice; provided that notices of a change of address or telecopier number shall be effective only upon receipt thereof):

If to SSI:	School Specialty, Inc. Attn: Daniel P. Spalding, CEO W6316 Design Drive Greenville, WI 54942 Facsimile: 920-882-5863
With a copy to:	Joseph F. Franzoi IV Franzoi & Franzoi, S.C. 514 Racine Street Menasha, WI 54952 Facsimile: 920-725-0998
If to FCC or Franklin Canada:	Franklin Covey Co. 2200 West Parkway Boulevard Salt Lake City, Utah 84119 Attn: Val John Christensen Facsimile: 801-817-8197
With a copy to:	Parr Waddoups Brown Gee & Loveless Suite 1300 185 South State Street, Suite 1300 Salt Lake City, Utah 84111-1537 Attn: Scott W. Loveless Facsimile: 801-532-7750

9.7 ASSIGNMENT. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto without the prior written consent of the other parties. This Agreement is not intended to and shall not confer upon any person other than the parties any rights or remedies hereunder or with respect hereto.

9.8 GOVERNING LAW. This Agreement shall be governed by and construed, interpreted and enforced in accordance with the laws of the state in which the action is brought. Any disputes arising out of, in connection with or with respect to this Agreement, the subject matter hereof, the performance or non-performance of any obligation hereunder, or any of the transactions contemplated hereby shall be adjudicated in a court of competent civil jurisdiction sitting in the City of Salt Lake City, Utah should the action be initially filed by the Buyers or be adjudicated in a court of competent civil jurisdiction sitting in the City of Milwaukee, Wisconsin should the action be initially filed by Sellers and nowhere else. Each of the parties hereto hereby irrevocably submits to the jurisdiction of such court for the purposes of any suit, civil action or other proceeding arising out of, in connection with or with respect to this Agreement, the subject matter hereof, the performance or non-performance of any obligation hereunder, or any of the transactions contemplated hereby (collectively, "Suit"). Each of the parties hereto hereby waives and agrees not to assert by way of motion, as a defense or otherwise in any such Suit, any claim that it is not subject to the jurisdiction of the above courts, that such Suit is brought in an inconvenient forum, or that the venue of such Suit is improper. Nothing in this Agreement shall affect or diminish any party's right to serve summonses and other legal process in any other manner permitted by law in connection with any Suit in the jurisdictions and locations described above.

9.9 JURISDICTION. Any process against Buyers, or any of the Sellers in, or in connection with, any suit, action or proceeding arising out of or relating to this Agreement or any of the transactions contemplated by this Agreement may be served personally or by certified mail at the address of such party set forth in Section 9.6 with the same effect as though served on it.

9.10 COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same agreement. ANY SIGNATURE AFFIXED TO THIS DOCUMENT AND RECEIVED IN TELECOPY FORM SHALL BE DEEMED AN ORIGINAL SIGNATURE.

9.11 INTERPRETATION. The article and section headings contained in this Agreement are solely for the purpose of reference, are not part of the agreement of the parties and shall not in any way affect the meaning or interpretation of this Agreement. Unless otherwise provided, all references in this Agreement to articles and sections refer to the corresponding articles and sections of this Agreement. All words used herein shall be construed to be of such gender or number as the circumstances require. Unless otherwise specifically noted, the words "herein," "hereof," "hereby," "hereinabove," "hereinbelow," "hereunder," and words of similar import, refer to this Agreement as a whole and not to any particular article, section, subsection, paragraph, clause or other subdivision hereof. Whenever the term "including" or a similar term is used in this Agreement, it shall be read as if it were written "including by way of example only and without in any way limiting the generality of the clause or concept to which reference is made."

9.12 ENTIRE AGREEMENT. This Agreement, including the Exhibits and the documents, instruments and schedules referred to herein and in the Transaction Agreements, embodies the entire agreement and understanding of the parties hereto in respect of the subject matter contained herein. There are no restrictions, promises, representations, warranties, covenants, or undertakings other than those expressly set forth or referred to herein and in the Transaction Agreements. This Agreement supersedes all prior agreements and understandings between the parties with respect to such subject matter.

9.13 ATTORNEYS' FEES. In the event any party hereto institutes a Proceeding against any other party hereto for a claim arising out of or to enforce this Agreement, the losing party shall pay the reasonable attorneys' fees and court costs incurred by the prevailing party in connection with such Proceeding.

9.14 TIME OF ESSENCE. With regard to all time periods set forth or referred to in this Agreement, time is of the essence.

9.15 CONSTRUCTION. The parties have jointly participated in the negotiation and drafting of this Agreement. In the event of an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties and no presumptions or burdens of proof shall arise favoring any party by virtue of the authorship of any of the provisions of this Agreement.

9.16 SEVERABILITY. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction. If the final judgment of the court of competent jurisdiction declares that a term or provision hereof is invalid or unenforceable, the parties agree that the court making the determination of invalidity or unenforceability shall have the power to reduce the scope, duration or area of the term or provision, to delete specific words or phrases, or to replace any invalid or unenforceable term or provision with a term or provision that is valid and enforceable that comes closest to expressing the intention of the invalid or unenforceable term or provision, and this Agreement shall be enforceable as so modified after the expiration of the time within which the judgment may be appealed.

9.17 NO THIRD-PARTY BENEFICIARIES. This Agreement shall not confer any rights or remedies upon any persons other than the parties and their respective successors or permitted assigns.

9.18 INCORPORATION OF EXHIBITS AND SCHEDULES. The exhibit and Disclosure Schedules identified in this Agreement are incorporated herein by reference and are a part hereof.

9.19 PUBLICITY. No party to this Agreement will make any press release or announcement, public or otherwise, in connection with the transactions contemplated hereby without the prior approval of the other party, except as may be required by law.

9.20 SSI CANADA NAME. Following the execution and delivery of this Agreement and up to and prior to the Closing SSI Canada shall have the right to revise its corporate name.

ARTICLE X

DEFINITIONS

For the purposes of this Agreement, the following terms shall have the meanings specified or referred to below whether or not capitalized when used in this Agreement. Any reference or citation to a law, statute or regulation shall be deemed to include any amendments to that law, statute or regulation and judicial and administrative interpretations of it.

"ACQUIRED COMPANIES"--Premier Agendas, PSA, and each of their respective subsidiaries, collectively.

"ACQUIRED COMPANIES' ACCOUNTANTS"--Arthur Andersen LLP.

"ADULT LEADERSHIP TRAINING PROGRAM" - The Adult Leadership Training Program shall mean all business activities of the Acquired Companies in selling and providing training services in The 7 Habits of Highly Effective People, What Matters Most, The 4 Roles of Leadership and any other Franklin Covey exclusively owned training curriculum to Kindergarten through 12th grade school teachers and administrators by, among other means, selling seats in public seminar programs presented by Franklin Covey, delivering on-site training events at clients' facilities, or licensing client-employed certified training facilitators to present the foregoing curricula in-house.

"AFFILIATE"--with respect to a specified Person, (a) any entity of which such Person is an executive officer, director, partner, trustee or other fiduciary or is directly or indirectly the beneficial owner of 10% or more of any class of equity security thereof or other financial or voting interest therein; (b) any director, executive officer, partner, trustee or other fiduciary or any direct or indirect beneficial owner of 10% or more of any class of equity security of, or other financial or voting interest in, such entity; or (c) any Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with the Person specified. For purposes of this definition, "executive officer" means the president, any vice president in charge of a principal business unit, division or function such as sales, administration, research and development, or finance, and any other officer, employee or other Person who performs a policy making function or has the same duties as those of a president or vice president. For purposes of this definition, "control" (including "controlling," "controlled by" and "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. When used without reference to a particular Person, "Affiliate" means an Affiliate of any of the Sellers. Without limiting the foregoing, for the purpose of this Agreement, each of Sellers shall be deemed to be Affiliates of each other.

"ALLOCATION SCHEDULE"--Schedule 1.2(a) describing the allocation of the Purchase Price among Sellers.

"APPLICABLE CONTRACT"--any Contract (a) under which any Acquired Company has any rights, (b) under which any Acquired Company has any obligation or liability, or (c) by which any Acquired Company or any of the assets owned, leased or used by any Acquired Company is bound.

"BALANCE SHEET"--The combined balance sheets of the Acquired Companies as of August 31, 2001 which have been included in the audited consolidated financial statements of the Sellers.

"BEST EFFORTS"--the efforts that a prudent Person desirous of achieving a result would use in similar circumstances to maximize to the extent reasonably practicable the prospects that a result will occur.

"BREACH"--a "Breach" of a representation, warranty, covenant, obligation, or other provision of this Agreement or any instrument delivered pursuant to this Agreement will be deemed to have occurred if there is or has been (a) any inaccuracy in or breach of, or any failure to perform or comply with, such representation, warranty, covenant, obligation, or other provision, or (b) any claim (by any Person) or other occurrence or circumstance that is or was inconsistent with such representation, warranty, covenant, obligation, or other provision and causes damage to such person, and the term "Breach" means any such inaccuracy, breach, failure, claim, occurrence, or circumstance.

"BUYER'S AUDITORS"--Arthur Andersen LLP, or such other independent public accounts as may be engaged by the Buyers from time to time.

"CLOSING"--as defined in Section 1.3.

"CLOSING DATE"--the date and time as of which the Closing actually takes place.

"COMBINED WORKING CAPITAL"--total current assets minus total current liabilities as determined on a combined basis, for the Acquired Companies in accordance with GAAP. Notwithstanding the foregoing, the amount of reserves included in Combined Working Capital, as of the Closing Date shall be calculated in accordance with GAAP but shall not be less than the amount as recorded in the Balance Sheets of the Acquired Companies as of August 31, 2001. Further notwithstanding the foregoing, current assets and current liabilities in accordance with GAAP for the purpose of determining Combined Working Capital shall not be affected by deferred Tax assets, deferred Tax liabilities, and income Taxes payable/receivable.

"CODE"--the Internal Revenue Code of 1986, as amended, or any successor law, and regulations issued by the IRS pursuant to the Internal Revenue Code or any successor law.

"CONSENT"--any approval, consent, ratification, waiver, or other authorization (including any Governmental Authorization).

"CONTEMPLATED TRANSACTIONS"--all of the transactions contemplated by this Agreement, including:

(a) the sale of the Shares by Sellers to Buyers;

(b) the execution, delivery, and performance of the Sellers' Releases;

(c) the performance by Buyers and Sellers of their respective covenants and obligations under this Agreement; and

(d) Buyer's acquisition and ownership of the Shares and exercise of control over any Acquired Companies.

"CONTRACT"--any agreement, contract, obligation, promise, or undertaking (whether written or oral and whether express or implied) that is legally binding.

"DAMAGES"--as defined in Section 8.1.

"DISCLOSURE LETTER"--the disclosure letter attached hereto and delivered by the Sellers and the Acquired Companies to Buyers upon the execution and delivery of this Agreement, as the same may be supplemented from time to time, containing the information required by Article II.

"EMPLOYEE BENEFIT PLAN"--with respect to Premier Agendas and Premier Graphics any employee benefit plan within the meaning of Section 3.(3) of ERISA or, with respect to PSA, any employee benefit program, scheme or plan contributed to or funded by premiums paid by PSA or PSA employees, maintained or contributed to by an employee or an Acquired Company or any ERISA Affiliate, other than a Multiemployer Plan.

"EMPLOYMENT AGREEMENTS"--as defined in Section 1.4(a)(iv).

"ENCUMBRANCE"--any charge, claim, community property interest, condition, equitable interest, lien, pledge, security interest, right of first refusal, option or restriction of any kind, including any restriction on use, voting (in the case of any security), transfer, receipt of income, or exercise of any other attribute of ownership.

"ENVIRONMENT"--soil, land surface or subsurface strata, surface waters (including navigable waters and ocean waters), ground waters, drinking water supply, stream sediments, ambient air (including indoor air), plant and animal life, and any other natural resource.

"ENVIRONMENTAL, HEALTH, AND SAFETY LIABILITIES"--any cost, damages, expense, liability, obligation, or other responsibility arising from or under the Breach of any Environmental Law, Occupational Safety and Health Law, or any Order, and relating to:

(a) any environmental, health, or safety matters or conditions (including on-site or off-site contamination, occupational safety and health, and regulation of chemical substances or products);

(b) fines, penalties, judgments, awards, settlements, legal or administrative proceedings, damages, losses, claims, demands and response, remedial, or inspection costs and expenses arising under Environmental Law or Occupational Safety and Health Law;

(c) financial responsibility under Environmental Law or Occupational Safety and Health Law for cleanup costs or corrective action, including any cleanup, removal, containment, or other remediation or response actions ("Cleanup") required by applicable Environmental Law or Occupational Safety and Health Law (whether or not such Cleanup has been required or requested by any Governmental Body or any other Person) and for any natural resource damages; or

(d) any other compliance, corrective, or remedial measures required under Environmental Law or Occupational Safety and Health Law.

Where United States jurisdiction is applicable, the terms “removal,” “remedial,” and “response action” will include the types of activities covered by the United States Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. Section 9601 et seq., as amended (“CERCLA”).

"ENVIRONMENTAL LAW"--any Legal Requirement designed:

(a) to advise appropriate authorities, employees, and the public of intended or actual releases of pollutants or hazardous substances or materials, violations or discharge limits, or other prohibitions and of the commencements of activities, such as resource extraction or construction, that could have significant impact on the Environment;

(b) to prevent or acceptably minimize the release of pollutants or hazardous substances or materials into the Environment;

(c) to reduce the quantities, prevent the release, and minimize the hazardous characteristics of wastes that are generated;

(d) to assure that products are designed, formulated, packaged, or used so that they do not present unreasonable risks to human health or the Environment when used or disposed of;

(e) to protect resources or species;

(f) to acceptably minimize the risks inherent in transportation of hazardous substances, pollutants, oil, or other potentially harmful substances;

(g) to clean up pollutants that have been released, prevent the threat of release, or pay the costs of such clean up or prevention; or

(h) to make responsible parties pay private parties, or groups of them, for damages done to their health or the Environment, or to permit self-appointed representatives of the public interest to recover for injuries done to public assets or the Environment.

"ERISA"--the Employee Retirement Income Security Act of 1974, any successor statue and the rules and regulations thereunder, collectively, as from time to time amended and in effect.

"ERISA AFFILIATE"--any Person which is treated as a single employer with Premier Agendas under Section 414 of the Code.

"FACILITIES"--any real property or leaseholds currently owned or operated by the Acquired Companies and any buildings, plants, structures, or equipment currently owned, leased, or operated by any Acquired Company.

"FAMILY"--as defined in the definition of "Related Person."

"GAAP"-- with respect to accounting matters of PSA, generally accepted accounting principles for Canada, consistently applied, with respect to Premier Agendas, generally accepted accounting principles in the United States, consistently applied and with respect to consolidated financial statements of the Acquired Companies, United States GAAP shall apply. GAAP means those accounting principles and practices (a) which are recognized as such by the Financial Accounting Standards Board with respect to US GAAP or the Canadian Institute of Chartered Accountants with respect to Canadian GAAP, (b) which are applied for all periods in a manner consistent with the manner in which such principles and practices were applied to the most recent audited or reviewed financial statements of the Acquired Company in question furnished to Buyer, (c) which are consistently applied for all periods so as to reflect properly the financial condition, and results of operations and cash flows, of the Sellers, and (d) notwithstanding the foregoing shall be without regard to materiality as it relates to establishing adequate reserves and accruals as of the Closing Date.

"GOVERNMENTAL AUTHORIZATION"--any approval, consent, license, permit, waiver, or other authorization issued, granted, given, or otherwise made available by or under the authority of any Governmental Body or pursuant to any Legal Requirement.

"GOVERNMENTAL BODY"--any:

(a) nation, state, province, county, city, town, village, district, or other governmental jurisdiction of any nature;

(b) federal, state, provincial, local, municipal, foreign, or other government;

(c) governmental or quasi-governmental authority of any nature (including any governmental agency, branch, department, official, or entity and any court or other tribunal);

(d) multi-national organization or body; or

(e) body exercising, or entitled to exercise, any administrative, executive, judicial, legislative, police, regulatory, or taxing authority or power of any nature, whether in the United States, Canada or any other jurisdiction.

"GUARANTEED PENSION PLAN"--any employee pension plan within the meaning of Section 3(2) of ERISA, maintained or contributed to by an Acquired Company or any ERISA Affiliate the benefits of which are guaranteed on termination in full or in part by the Pension Benefit Guaranty Corporation pursuant to Title IV of ERISA, other than a "Multiemployer Plan."

"HAZARDOUS ACT"--the distribution, generation, handling, importing, management, manufacturing, processing, production, refinement, Release, storage, transfer, transportation, treatment, or use (including any withdrawal or other use of groundwater) of Hazardous Materials in, on, under, about, or from the Facilities or any part thereof into the Environment, and any other act, business, operation, or thing that increases the danger, or risk of danger, or poses an unreasonable risk of harm to persons or property on or off the Facilities, or that may affect the value of the Facilities or the Acquired Companies.

"HAZARDOUS MATERIALS"--any substance that is now listed, defined, designated, or classified as, or otherwise determined to be, hazardous, radioactive, or toxic or a pollutant or a contaminant under or pursuant to any Environmental Law, including any admixture or solution thereof, and specifically including petroleum and all derivatives thereof or synthetic substitutes therefor and asbestos or asbestos containing materials.

"HSR ACT"--the Hart-Scott-Rodino Antitrust Improvements Act of 1976 or any successor law, and regulations and rules issued pursuant to that Act or any successor law.

"IRS"--the United States Internal Revenue Service or any successor agency, and, to the extent relevant, the United States Department of the Treasury.

"KNOWLEDGE"--an individual will be deemed to have "Knowledge" of a particular fact or other matter if:

(a) such individual is actually aware of such fact or other matter; or

(b) a prudent individual could be expected to discover or otherwise become aware of such fact in carrying out such individual's duties for any Acquired Company.

"KNOWLEDGE OF THE ACQUIRED COMPANIES"--shall mean Knowledge of the following individuals about the affairs of the Company: David L. Loeppky, Barrett J. Berends, Kevin Moore, and James S. Gibson.

"LEGAL REQUIREMENT"--any federal, state, provincial, local, municipal, foreign, international, multinational, or other constitution, law, ordinance, principle of common law, regulation, statute, or treaty.

"MATERIAL ADVERSE EFFECT" -- means an event, condition, circumstance, act, omission or effect which, individually or in the aggregate with other similar events, conditions, circumstances, acts, omissions or effects: (i) after taking into consideration the relative amount, the absolute amount and the nature of the item would cause a reasonably prudent buyer to conclude that such effect adversely affects the value, financial condition, prospects, assets, liabilities, obligations or operations of the Sellers or the businesses of the Acquired Companies in a manner or amount which would be material, or (ii) has or will have a direct financial consequence, including the diminution of value of the Acquired Companies, of One Million Dollars ($1,000,000).

"MATERIAL INTEREST"--as defined in the definition of "Related Person."

"MULTIEMPLOYER PLAN"--a "multiemployer plan" within the meaning of Section 3(37) of ERISA.

"NOTES PAYABLE TO FCC"--amounts due to FCC by the Acquired Companies due to dividend declarations prior to August 31, 2001.

"OCCUPATIONAL SAFETY AND HEALTH LAW"--any Legal Requirement designed to provide safe and healthful working conditions and to reduce occupational safety and health hazards.

"ORDER"--any award, decision, injunction, judgment, order, directive, ruling, subpoena, or verdict entered, issued, made, or rendered by any court, administrative agency, or other Governmental Body or by any arbitrator.

ORDINARY COURSE OF BUSINESS"--an action taken by a Person will be deemed to have been taken in the "Ordinary Course of Business" only if such action is consistent with the past practices of such Person and is taken in the ordinary course of the normal day-to-day operations of such Person and is not excessive in amount or time with similar past actions. This shall include but not be limited to not accelerating or extending the collection or payment of assets or liabilities based upon the historic practices of the Acquired Companies. Notwithstanding anything in this definition to the contrary, withdrawal of cash by the Sellers from the Acquired Companies from August 31, 2001 through the Closing Date as described in Section 1.5 herein shall be considered within the definition of ORDINARY COURSE OF BUSINESS.

"ORGANIZATIONAL DOCUMENTS"--(a) the articles of incorporation, memorandum and articles and the bylaws of a corporation; (b) any charter or similar document adopted or filed in connection with the creation, formation, or organization of a Person; and (c) any amendment to any of the foregoing.

"PERSON"--any individual, corporation (including any non-profit corporation), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, or other entity or Governmental Body.

"PLAN"--as defined in Section 3.14.

"PREMIER AGENDAS SHARES"--as defined in the Recitals to this Agreement.

"PROCEEDING"--any action, arbitration, audit, hearing, investigation, litigation, or suit (whether civil, criminal, administrative, investigative, or informal) commenced, brought, conducted, or heard by or before, or otherwise involving, any Governmental Body or arbitrator.

"PSA SHARES"--as defined in the Recitals to this Agreement.

"PURCHASE PRICE"--as defined in Section 1.2.

"RELATED PERSON"--with respect to a particular individual:

(a) each other member of such individual's Family;

(b) any Person that is directly or indirectly controlled by any one or more members of such individual's Family;

(c) any Person in which members of such individual's Family hold (individually or in the aggregate) a Material Interest; and

(d) any Person with respect to which one or more members of such Individual's Family serves as a director, officer, partner, executor, or trustee (or in a similar capacity).

With respect to a specified Person other than an individual:

(a) any Person that directly or indirectly controls, is directly or indirectly controlled by, or is directly or indirectly under common control with such specified Person;

(b) any Person that holds a Material Interest in such specified Person;

(c) each Person that serves as a director, officer, partner, executor, or trustee of such specified Person (or in a similar capacity);

(d) any Person in which such specified Person holds a Material Interest; and

(e) any Person with respect to which such specified Person serves as a general partner or a trustee (or in a similar capacity).

For purposes of this definition, (a) the "Family" of an individual includes (i) the individual, (ii) the individual's spouse, (iii) any other natural person who is related to the individual or the individual's spouse within the first degree, and (iv) any other natural person who resides with such individual, and (b) "Material Interest" means direct or indirect beneficial ownership (as defined in Rule 13d-3 under the Securities Exchange Act of 1934) of voting securities or other voting interests representing at least ten percent (10%) of the outstanding voting power of a Person or equity securities or other equity interests representing at least ten percent (10%) of the outstanding equity securities or equity interests in a Person.

"RELEASE"--any spilling, leaking, emitting, discharging, depositing, escaping, leaching, dumping, or other releasing into the Environment.

"REPRESENTATIVE"--with respect to a particular Person, any director, officer, employee, agent, consultant, advisor, or other representative of such Person, including legal counsel, accountants, and financial advisors.

"SECURITIES ACT"--the Securities Act of 1933 or any successor law, and regulations and rules issued pursuant to that Act or any successor law.

"SELLERS"--as defined in the first paragraph of this Agreement.

"SHARES"--as defined in the Recitals of this Agreement.

"SUBSIDIARIES"--with respect to any Person (the "Owner"), any corporations or other Persons of which securities or other interests having the power to elect a majority of that corporation's or other Person's board of directors or similar governing body, or otherwise having the power to direct the business and policies of that corporation or other Person (other than securities or other interests having such power only upon the happening of a contingency that has not occurred) are held by the Owner or one or more of its Subsidiaries; when used without reference to a particular Person, "Subsidiary" means a Subsidiary of an Acquired Company.

"TAX"--any tax (including any income tax, capital gains tax, value-added tax, sales tax, property tax, gift tax, employment and related taxes, or estate tax, federal goods and services tax and social services tax and other federal, provincial or state taxes), levy, assessment, tariff, duty (including any customs duty), deficiency, or other amount (including any fine, penalty, interest, or addition to tax), imposed, assessed, or collected by or under the authority of any Governmental Body.

"TAX ACT"--the Income Tax Act (Canada), as amended from time to time.

"TAX RETURNS"--returns or filings required for the Acquired Companies to remain in full compliance with all Legal Requirements regarding Taxes including but not limited those as described under Sections 2.12 and 2.14 of this Agreement.

"TRANSACTION DATE"--the date on which an event occurs giving rise to an obligation to pay money or the right to receive money in consideration for services rendered or property exchanged or in accordance with the terms of this Agreement.

[Remainder of Page Intentionally Blank]

IN WITNESS WHEREOF, each of the parties hereto has caused this agreement to be executed on its behalf effective as of the date first above written.

Franklin Covey Co.

By: _____

Its: _____

Franklin Covey Canada Ltd.

By: _____

Its: _____

School Specialty, Inc.

By: _____

Its: _____

3956831 Canada Inc.

By: _____

Its: _____

Exhibit 21

FRANKLIN COVEY CO.
Subsidiaries

Domestic:

Franklin Covey Printing, Inc. (a Utah corporation)
Franklin Development Corporation (a Utah corporation)
Franklin Covey Canada, Ltd. (a Canada corporation)
Premier School Agendas, Ltd. (a Canadian corporation)
Franklin Covey Asia, Inc. (a Utah corporation)
Franklin Covey Mexico, Inc. (a Utah corporation)
Premier Agendas, Inc. (a Washington 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 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)

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included or incorporated by reference in this Form 10-K into the Company's previously filed registration statements on Form S-8, File Nos. 33-73624, 33-51314, 333-34498 and 333-38172, and Form S-3, File No. 333-89541.

/s/ ARTHUR ANDERSEN LLP

Salt Lake City, Utah
November 26, 2001