

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

**FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended November 26, 2011

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file no. 1-11107



Utah  
(State of incorporation)

87-0401551  
(I.R.S. employer identification  
number)

2200 West Parkway Boulevard  
Salt Lake City, Utah  
(Address of principal executive  
offices)

84119-2099  
(Zip Code)

Registrant's telephone number,  
Including area code

(801) 817-1776

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

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

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

Large accelerated filer  Accelerated filer

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

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

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock as of the latest practicable date:

17,749,414 shares of Common Stock as of December 31, 2011

FRANKLIN COVEY CO.

CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands, except per share amounts)

	November 26, 2011	August 31, 2011
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,591	\$ 3,016
Accounts receivable, less allowance for doubtful accounts of \$747 and \$798	29,739	32,412
Receivable from related party	6,381	5,717
Inventories	4,532	4,301
Deferred income taxes	2,992	3,005
Prepaid expenses and other assets	3,786	3,605
Total current assets	<u>50,021</u>	<u>52,056</u>
Property and equipment, net	19,093	19,143
Intangible assets, net	61,072	61,703
Goodwill	9,172	9,172
Other assets	9,847	9,353
	<u>\$ 149,205</u>	<u>\$ 151,427</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of financing obligation	\$ 890	\$ 857
Line of credit	1,131	-
Current portion of bank note payable	2,500	2,292
Accounts payable	8,226	9,154
Income taxes payable	692	285
Accrued liabilities	17,444	22,813
Total current liabilities	<u>30,883</u>	<u>35,401</u>
Financing obligation, less current portion	29,269	29,507
Bank note payable, less current portion	2,083	2,708
Other liabilities	412	411
Deferred income tax liabilities	4,467	4,084
Total liabilities	<u>67,114</u>	<u>72,111</u>
Shareholders' equity:		
Common stock – \$0.05 par value; 40,000 shares authorized, 27,056 shares issued and outstanding	1,353	1,353
Additional paid-in capital	180,609	179,515
Common stock warrants	5,260	5,260
Retained earnings	19,931	18,269
Accumulated other comprehensive income	3,416	3,592
Treasury stock at cost, 9,372 and 9,386 shares	(128,478)	(128,673)
Total shareholders' equity	<u>82,091</u>	<u>79,316</u>
	<u>\$ 149,205</u>	<u>\$ 151,427</u>

See notes to condensed consolidated financial statements.

## FRANKLIN COVEY CO.

CONDENSED CONSOLIDATED INCOME STATEMENTS  
(in thousands, except per share amounts)

	Quarter Ended	
	November 26, 2011	November 27, 2010
	(unaudited)	
Net sales:		
Training and consulting services	\$ 36,382	\$ 37,555
Products	2,463	1,276
Leasing	695	585
	<u>39,540</u>	<u>39,416</u>
Cost of sales:		
Training and consulting services	11,859	13,250
Products	735	681
Leasing	404	409
	<u>12,998</u>	<u>14,340</u>
Gross profit	26,542	25,076
Selling, general, and administrative	21,373	19,789
Depreciation	834	910
Amortization	631	929
Income from operations	<u>3,704</u>	<u>3,448</u>
Interest income	3	4
Interest expense	(633)	(711)
Income before income taxes	<u>3,074</u>	<u>2,741</u>
Provision for income taxes	(1,412)	(1,947)
Net income	<u>\$ 1,662</u>	<u>\$ 794</u>
Net income per share:		
Basic and diluted	\$ .09	\$ .05
Weighted average number of common shares:		
Basic	17,733	17,032
Diluted	17,998	17,115

See notes to condensed consolidated financial statements.

## FRANKLIN COVEY CO.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

	Quarter Ended	
	November 26, 2011	November 27, 2010
	(unaudited)	
Cash flows from operating activities:		
Net income	\$ 1,662	\$ 794
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	1,489	1,839
Share-based compensation expense	1,191	381
Amortization of capitalized curriculum costs	478	423
Deferred income taxes	394	1,263
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable, net	2,530	(5,195)
Decrease (increase) in inventories	(268)	507
Decrease (increase) in receivable from related party, prepaid expenses, and other assets	(762)	102
Increase (decrease) in accounts payable and accrued liabilities	(6,502)	(2,701)
Decrease in other long-term liabilities	(2)	-
Increase in income taxes payable	410	438
Net cash provided by (used for) operating activities	620	(2,149)
Cash flows from investing activities:		
Purchases of property and equipment	(554)	(303)
Curriculum development costs	(1,097)	(1,001)
Net cash used for investing activities	(1,651)	(1,304)
Cash flows from financing activities:		
Proceeds from line of credit borrowing	5,942	16,265
Payments on line of credit borrowing	(4,811)	(14,449)
Principal payments on bank note payable	(417)	-
Principal payments on financing obligation	(213)	(178)
Proceeds from sales of common stock from treasury	99	77
Purchase of treasury shares	-	(4)
Net cash provided by financing activities	600	1,711
Effect of foreign exchange rates on cash and cash equivalents	6	(38)
Net decrease in cash and cash equivalents	(425)	(1,780)
Cash and cash equivalents at beginning of the period	3,016	3,484
Cash and cash equivalents at end of the period	\$ 2,591	\$ 1,704
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 630	\$ 703
Cash paid for income taxes	511	288
Non-cash investing and financing activities:		
Acquisition of property and equipment through accounts payable	\$ 428	\$ 177

See notes to condensed consolidated financial statements.

FRANKLIN COVEY CO.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

**NOTE 1 – BASIS OF PRESENTATION**

Franklin Covey Co. (hereafter referred to as us, we, our, or the Company) is a leading global provider of execution, leadership, and personal-effectiveness training. We operate globally with one common brand and set of offerings designed to enable us to provide clients around the world with the same high level of service. To achieve this level of service, we operate four regional sales offices in the United States; wholly owned subsidiaries in Australia, Japan, and the United Kingdom; and contract with licensee partners who deliver our curriculum and provide services in over 140 other countries and territories around the world. Our business-to-business service builds on our expertise in training, consulting, and technology that is designed to help our clients define great performance and engage their leaders and front-line employees to execute at the highest levels. We also help clients accelerate great performance through education in management skills, relationship skills, and individual effectiveness, and can provide personal-effectiveness literature and electronic educational solutions to our clients as needed. Our services and products are available through professional consulting services, training on-site at client locations by Franklin Covey consultants, training on-site at client locations by client employees who have been certified to deliver our content (facilitators), public workshops, and through a series of offerings delivered via the Internet. These offerings are described in further detail at [www.franklincovey.com](http://www.franklincovey.com). We have some of the best-known offerings in the training industry, including a suite of individual-effectiveness and leadership-development training products based on the best-selling book, *The 7 Habits of Highly Effective People* and its execution process, *The 4 Disciplines of Execution*.

The accompanying unaudited condensed consolidated financial statements reflect, in the opinion of management, all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position and results of operations of the Company as of the dates and for the periods indicated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to Securities and Exchange Commission (SEC) rules and regulations. The information included in this quarterly report on Form 10-Q should be read in conjunction with the consolidated financial statements and related notes included in our annual report on Form 10-K for the fiscal year ended August 31, 2011.

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

The Company utilizes a modified 52/53-week fiscal year that ends on August 31 of each year. Corresponding quarterly periods generally consist of 13-week periods that end on November 26, 2011, February 25, 2012, and May 26, 2012 during fiscal 2012. Under the modified 52/53-week fiscal year, the quarter ended November 26, 2011 had one less business day than the quarter ended November 27, 2010. Unless otherwise noted, references to fiscal years apply to the 12 months ended on August 31 of the specified year.

The results of operations for the quarter ended November 26, 2011 are not necessarily indicative of results expected for the entire fiscal year ending August 31, 2012, or for any future periods.

At November 26, 2011, the carrying value of our financial instruments approximated their fair values.

**NOTE 2 – ACCOUNTS RECEIVABLE**

During the normal course of business, we may extend credit to our customers for their purchases of our services and products, which results in accounts receivable. Our trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts represents our best estimate of the amount of probable credit losses in the existing accounts receivable balance. We determine the allowance for doubtful accounts based upon historical write-off experience and current economic conditions, and we review the adequacy of the allowance for doubtful accounts on a regular basis. Receivable balances past due over 90 days, which exceed a specified dollar amount, are reviewed individually for collectibility. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Activity in our allowance for doubtful accounts was comprised of the following for the quarter ended November 26, 2011 (in thousands):

	<u>Allowance for Doubtful Accounts</u>
Balance at August 31, 2011	\$ 798
Additions: charged to expense	23
Deductions: amounts written off	(74)
Balance at November 26, 2011	<u>\$ 747</u>

Recoveries of amounts previously written off were insignificant during the quarter ended November 26, 2011.

**NOTE 3 – INVENTORIES**

Inventories are stated at the lower of cost or market, cost being determined using the first-in, first-out method, and were comprised of the following (in thousands):

	<u>November 26, 2011</u>	<u>August 31, 2011</u>
Finished goods	\$ 4,396	\$ 4,158
Raw materials	136	143
	<u>\$ 4,532</u>	<u>\$ 4,301</u>

**NOTE 4 – SHARE-BASED COMPENSATION**

We utilize various share-based compensation plans as integral components of our overall compensation and associate retention strategy. The compensation cost of our share-based compensation plans was included in selling, general, and administrative expenses in the accompanying condensed consolidated income statements and no share-based compensation was capitalized during the quarter ended November 26, 2011. The total cost of our share-based compensation plans was as follows for the periods presented (in thousands):

	Quarter Ended	
	November 26,	
	2011	November 27, 2010
Performance awards	\$ 925	\$ 50
Stock option vesting	168	112
Unvested share awards	80	102
Employee stock purchase plan	18	13
Fully vested stock awards	-	104
	<u>\$ 1,191</u>	<u>\$ 381</u>

The following is a description of recent developments in our share-based compensation plans.

#### Performance Awards

During the quarter ended November 26, 2011, the Compensation Committee of the Board of Directors granted a new performance based equity award for the Chief Executive Officer (CEO), Chief Financial Officer (CFO), and the Chief People Officer (CPO). A total of 106,101 shares may be awarded to the participants based on six individual vesting conditions that are divided into two performance measures, Adjusted EBITDA and Productivity Practice sales. Three tranches of 24,757 shares will immediately vest to the participants when consolidated trailing four-quarter Adjusted EBITDA totals \$26.0 million, \$33.0 million, and \$40.0 million. Another three tranches of 10,610 shares will immediately vest when trailing four-quarter Productivity Practice sales total \$20.5 million, \$23.5 million, and \$26.5 million. These performance awards have a maximum life of six years. Compensation expense is recognized as the Company determines that it is probable that the shares will vest. Adjustments to compensation expense to reflect the number of shares expected to be awarded will be made on a cumulative basis at the date of the adjustment.

There were no other performance awards granted or modified during the quarter ended November 26, 2011. Compensation expense recognized during the quarter ended November 26, 2011 for performance awards includes expense related to awards granted in previous periods.

#### Stock Options

We have an incentive stock option plan whereby options to purchase shares of our common stock are issued to key employees at an exercise price not less than the fair market value of our common stock on the date of grant. During the quarter ended November 26, 2011 we did not grant any new stock options or modify existing awards and there were no significant changes to the stock option information disclosed as of August 31, 2011. At November 26, 2011 we had no remaining unrecognized compensation expense related to our stock option awards.

#### Unvested Share Awards

Our annual unvested share awards granted to non-employee members of our Board of Directors is administered under the terms of the Franklin Covey Co. Second Amended and Restated 1992 Stock Incentive Plan, and is designed to provide our non-employee directors, who are not eligible to participate in our employee stock incentive plan, an opportunity to obtain an interest in the Company through the acquisition of shares of our common stock. The annual unvested award is generally granted in January (following the Annual Shareholders' Meeting) of each year. In fiscal 2011, each eligible director was entitled to receive a whole-share grant equal to \$40,000 with a one-year vesting period, which resulted in a total of 37,960 shares issued to members of the Board of Directors under this program. At November 26, 2011, there was approximately \$27,000 of unrecognized compensation expense associated with the fiscal 2011 Board of Director unvested share award.

## Employee Stock Purchase Plan

We have an employee stock purchase plan that offers qualified employees the opportunity to purchase shares of our common stock at a price equal to 85 percent of the average fair market value of our common stock on the last trading day of the calendar month in each fiscal quarter. During the quarter ended November 26, 2011, a total of 12,155 shares were issued to participants in the ESPP.

## NOTE 5 – INCOME TAXES

In order to determine our quarterly provision for income taxes, we use an estimated annual effective tax rate, which is based on expected annual income and statutory tax rates in the various jurisdictions in which we operate. Certain discrete items are separately recognized in the quarter during which they occur and can be a source of variability in the effective tax rates from quarter to quarter.

Our effective tax rate for the quarter ended November 26, 2011 of approximately 46 percent was somewhat higher than statutory combined rates primarily due to taxable interest income on outstanding management common stock loans and the tax differential on income subject to both foreign and U.S. taxation. The effective tax rate for the quarter ended November 26, 2011 includes the benefit of foreign tax credits to be claimed on our U.S. federal income tax returns. The effective tax rate for the quarter ended November 27, 2010 of approximately 71 percent did not include the benefit of such foreign tax credits because we did not initially believe the Company would be able to utilize the benefits during fiscal 2011.

However, due to the utilization of net loss carryforwards and other deferred income tax assets, our cash paid for income taxes will remain significantly less than our income tax provision during the foreseeable future. During the quarter ended November 26, 2011, we paid \$0.5 million of cash for income taxes.

## NOTE 6 – COMPREHENSIVE INCOME

Comprehensive income or loss is based on net income or net loss and includes charges and credits to equity accounts that are not the result of transactions with shareholders. Our comprehensive income was calculated as follows for the periods indicated (in thousands):

	Quarter Ended	
	November 26, 2011	November 27, 2010
Net income	\$ 1,662	\$ 794
Other comprehensive income (loss) items, net of tax:		
Foreign currency translation adjustments	(176)	52
Comprehensive income	<u>\$ 1,486</u>	<u>\$ 846</u>

## NOTE 7 – EARNINGS PER SHARE

Basic earnings per common share (EPS) is calculated by dividing net income or loss by the weighted-average number of common shares outstanding for the period. Diluted EPS is calculated by dividing net income or loss by the weighted-average number of common shares outstanding plus the assumed exercise of all dilutive securities using the treasury stock method or the "if converted" method, as appropriate. Due to modifications to our management stock loan program, we



determined that the shares of management stock loan participants that were placed in the escrow account are participating securities because they continue to have equivalent common stock dividend rights. Accordingly, these management stock loan shares are included in our basic EPS calculation during periods of net income and excluded from the basic EPS calculation in periods of net loss. Our unvested share-based compensation awards are not entitled to participate in dividends until they vest and are excluded from our EPS calculation.

The following table presents the computation of our EPS for the periods indicated (in thousands, except per share amounts):

	Quarter Ended	
	November 26, 2011	November 27, 2010
<b>Numerator for basic and diluted earnings per share:</b>		
Income before income taxes	\$ 3,074	\$ 2,741
Income tax provision	(1,412)	(1,947)
Net income	<u>\$ 1,662</u>	<u>\$ 794</u>
<b>Denominator for basic and diluted earnings per share:</b>		
Basic weighted average shares outstanding <sup>(1)</sup>	17,733	17,032
Effect of dilutive securities:		
Stock options and other share-based awards	30	83
Common stock warrants <sup>(2)</sup>	235	-
Diluted weighted average shares outstanding	<u>17,998</u>	<u>17,115</u>
<b>EPS Calculations:</b>		
Net income per share:		
Basic and diluted	\$ .09	\$ .05

<sup>(1)</sup> Since we recognized net income for the quarters ended November 26, 2011 and November 27, 2010, basic weighted average shares for those periods include 3.3 million shares and 3.4 million shares, respectively, of common stock held by management stock loan participants that were placed in escrow.

<sup>(2)</sup> For the quarter ended November 27, 2010, the conversion of 6.2 million common stock warrants was not assumed because such conversion would be anti-dilutive.

At November 26, 2011 and November 27, 2010, we had approximately 0.7 million and 0.5 million stock options outstanding, which were not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of our common shares for the respective periods. Although these shares were not included in our calculation of diluted EPS, these stock options, and other dilutive securities, including performance share-based compensation instruments, may have a dilutive effect on our EPS calculation in future periods if the price of our common stock increases.

#### NOTE 8 – SEGMENT INFORMATION

Our sales are primarily comprised of training and consulting sales and related products. Based on the consistent nature of our services and products and the types of customers for these services, we function as a single operating segment. However, to improve comparability with previous periods, operating information for our U.S./Canada, international, and corporate services operations is presented below. Our U.S./Canada operations are responsible for the sale and delivery of our training and consulting services in the United States and Canada. Our international sales group

includes the financial results of our directly owned foreign offices and royalty revenues from licensees. Our corporate services information includes leasing income and certain corporate operating expenses.

The Company's chief operating decision maker is the CEO, and the primary measurement tool used in business unit performance analysis is earnings before interest, taxes, depreciation, and amortization (EBITDA), which is a non-GAAP measure and may not be calculated as similarly titled amounts calculated by other companies. For segment reporting purposes, our consolidated EBITDA can be calculated as our income or loss from operations excluding depreciation and amortization charges.

In the normal course of business, we may make structural and cost allocation revisions to our segment information to reflect new reporting responsibilities within the organization. There were no significant organizational or structural changes during the quarter ended November 26, 2011. We account for our segment information on the same basis as the accompanying condensed consolidated financial statements.

**ENTERPRISE INFORMATION**  
(in thousands)

<i>Quarter Ended</i> <i>November 26, 2011</i>	Sales to External Customers	Gross Profit	EBITDA	Depreciation	Amortization
U.S./Canada	\$ 27,446	\$ 17,145	\$ 2,434	\$ 419	\$ 627
International	11,399	9,106	5,119	90	4
Total	38,845	26,251	7,553	509	631
Corporate and eliminations	695	291	(2,384)	325	-
Consolidated	\$ 39,540	\$ 26,542	\$ 5,169	\$ 834	\$ 631

<i>Quarter Ended</i> <i>November 27, 2010</i>					
U.S./Canada	\$ 28,170	\$ 16,391	\$ 3,071	\$ 457	\$ 926
International	10,661	8,510	4,340	72	3
Total	38,831	24,901	7,411	529	929
Corporate and eliminations	585	175	(2,124)	381	-
Consolidated	\$ 39,416	\$ 25,076	\$ 5,287	\$ 910	\$ 929

A reconciliation of our U.S./Canada and international EBITDA to consolidated income from continuing operations before taxes is provided below (in thousands):

	Quarter Ended	
	November 26, 2011	November 27, 2010
U.S./Canada and international EBITDA	\$ 7,553	\$ 7,411
Corporate expenses	(2,384)	(2,124)
Consolidated EBITDA	5,169	5,287
Depreciation	(834)	(910)
Amortization	(631)	(929)
Income from operations	3,704	3,448
Interest income	3	4
Interest expense	(633)	(711)
Income before taxes	\$ 3,074	\$ 2,741

**NOTE 9 – SUBSEQUENT EVENT**

On April 20, 2010, Moore Wallace North America, Inc. doing business as TOPS filed a complaint against FC Organizational Products, LLC (FCOP) in the Circuit Court of Cook County, Illinois, for breach of contract. The complaint also named us as a defendant and alleged that we should be liable for FCOP's debts under the doctrine of alter ego or fraudulent transfer. On December 23, 2011, Moore Wallace North America, Inc., FCOP, and the Company entered into a settlement agreement and mutual release. Under the terms of this agreement, FCOP paid Moore Wallace North America, Inc. a specified sum to settle the complaint.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based upon management's current expectations and are subject to various uncertainties and changes in circumstances. Important factors that could cause actual results to differ materially from those described in forward-looking statements are set forth below under the heading "Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995."

We suggest that the following discussion and analysis be read in conjunction with the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended August 31, 2011.

### RESULTS OF OPERATIONS

#### Overview

Our first fiscal quarter includes the months of September, October, and November. The first quarter of fiscal 2012, which ended on November 26, 2011, continued the favorable momentum that we experienced during fiscal 2011 as continued sales increases in the majority of our delivery channels essentially offset expected declines in governmental services sales. Consolidated sales increased to \$39.5 million for the first quarter of fiscal 2012 compared with \$39.4 million in fiscal 2011. Primarily due to increased book royalties and international licensee royalties, our gross profit improved to \$26.5 million compared to \$25.1 million in the prior year. Our income from operations improved to \$3.7 million compared to \$3.4 million in the first quarter of fiscal 2011 and our income from before income taxes also improved to \$3.1 million compared with \$2.7 million in fiscal 2011. Following the impact of accounting for income taxes (refer to discussion below), our net income was \$1.7 million, or \$.09 per diluted share, compared to \$0.8 million, or \$.05 per diluted share, in the first quarter of fiscal 2011.

The primary factors that influenced our operating results for the quarter ended November 26, 2011 were as follows:

- **Sales** – Our consolidated sales increased to \$39.5 million in the first quarter of fiscal 2012 compared with \$39.4 million in the same quarter of fiscal 2011. Sales increased at three of our four U.S./Canada direct offices, at two of three direct international offices, at the majority of our international licensees, at all of our national account practices, and from increased book royalty revenues related to new publications. These increases were offset by expected sales reductions from contracts with a governmental agency. Although the majority of these contracts have been delivered in prior periods, we expect to continue to deliver services on these contracts throughout fiscal 2012, but at reduced levels compared with fiscal 2011.
- **Gross Profit** – Our gross profit totaled \$26.5 million compared to \$25.1 million in the first quarter of fiscal 2011. Our consolidated gross margin, which is gross profit in terms of a percentage of sales, increased to 67.1 percent of sales compared to 63.6 percent in fiscal 2011. The improvement in our gross margin was primarily due to increased book royalties and increased foreign licensee royalty revenues, which have higher gross margins than the majority of our other revenue streams.
- **Operating Expenses** – Our operating expenses increased by \$1.2 million compared to the first quarter of fiscal 2011, which was primarily due to a \$1.6 million increase in selling, general, and administrative expenses. The increase in selling, general, and

administrative expense was primarily due to increased non-cash share-based compensation expense and costs associated with the launch of our new flagship productivity offering entitled *The 5 Choices to Extraordinary Productivity*. Increased selling, general, and administrative expense was partially offset by decreased depreciation and amortization expenses.

**Income Taxes** – For the quarter ended November 26, 2011, we recognized a tax provision of \$1.4 million compared to \$1.9 million in the first quarter of fiscal 2011. Our effective tax rate for the quarter ended November 26, 2011 of approximately 46 percent was somewhat higher than statutory combined rates primarily due to taxable interest income on outstanding management common stock loans and the tax differential on income subject to both foreign and U.S. taxation. The effective tax rate for the quarter ended November 26, 2011 includes the benefit of foreign tax credits to be claimed on our U.S. federal income tax returns. The effective tax rate for the quarter ended November 27, 2010 of approximately 71 percent did not include the benefit of such foreign tax credits because we did not initially believe the Company would be able to utilize the benefits during fiscal 2011.

The following table sets forth sales data from continuing operations by category and by our primary delivery channels (in thousands):

	Quarter Ended		Percent Change
	November 26, 2011	November 27, 2010	
<i>Sales by Category:</i>			
Training and consulting services	\$ 36,382	\$ 37,555	(3)
Products	2,463	1,276	93
Leasing	695	585	19
	<u>\$ 39,540</u>	<u>\$ 39,416</u>	-
<i>Sales by Channel:</i>			
U.S./Canada direct	\$ 18,398	\$ 21,085	(13)
International direct	7,573	7,499	1
International licensees	3,921	3,193	23
National account practices	5,479	4,425	24
Self-funded marketing	2,926	2,167	35
Other	1,243	1,047	19
	<u>\$ 39,540</u>	<u>\$ 39,416</u>	-

Further details regarding these factors and their impact on our operating results and liquidity are provided throughout the following management's discussion and analysis.

#### Quarter Ended November 26, 2011 Compared to the Quarter Ended November 27, 2010

##### **Sales**

We offer a variety of training courses, consulting services, and training related products that are focused on leadership, productivity, strategy execution, sales force performance, trust, and effective communications that are provided both domestically and internationally through our sales force, facilitators, or through international licensees. The following sales analysis for the quarter ended November 26, 2011 is based on activity through our primary delivery channels:

**U.S./Canada Direct** – This channel includes our four regional field offices that serve our clients in the United States and Canada and our government services group. During the first quarter of fiscal 2012, our sales performance through these offices was primarily impacted by expected sales reductions from contracts with a governmental agency. Although the majority of these contracts have been delivered in prior periods, we expect to continue to deliver services on these contracts throughout the remainder of fiscal 2012. Sales through our government services group decreased \$3.9 million compared with the first quarter of fiscal 2011. Partially offsetting lower governmental services sales were increases at three of our four regional offices. Sales

increases through our regional offices were generally broad based across our curriculums and were favorably impacted by the launch of our new productivity offering, *The 5 Choices to Extraordinary Productivity* during the quarter.

**International Direct** – Our three directly owned international offices are located in Australia, Japan, and the United Kingdom. The slight increase in international direct sales was primarily due to improved sales in Japan, which increased \$0.2 million compared to the same quarter of fiscal 2011. The increase in sales was attributable to improved publishing sales, the favorable impact of translating sales to U.S. dollars, and improved training sales. Partially offsetting increased sales in Japan was a \$0.1 million decrease in sales at our office in Australia. Sales at our office in the United Kingdom were essentially flat compared to the prior year.

**International Licensees** – In countries or foreign locations where we do not have a directly owned office, our training and consulting services are delivered through independent licensees, which may translate and adapt our curriculum to local preferences and customs, if necessary. During the quarter ended November 26, 2011, the majority of our foreign licensees had increased sales compared to the prior year, which resulted in increased licensee royalty revenues compared to the prior year.

**National Account Practices** – Our national account practices are comprised of programs that are not typically offered in our regional field offices and includes *Helping Clients Succeed* from the sales performance group, *The Leader In Me* curriculum designed for students from our education practice, and *Winning Customer Loyalty* from our customer loyalty practice. The increase in national account practice sales was due to increased sales at all of these practices, led by increased sales performance group sales and education practice revenues.

**Self-Funded Marketing** – This group includes our public programs, book and audio sales, and speeches. The increase in sales was primarily due to a \$1.4 million increase in book royalties attributable to new books and publications and audio product sales. Increased book royalties were partially offset by decreased speaking revenues resulting primarily from the retirement of Dr. Stephen R. Covey from public speaking events.

**Other** – Our other sales are comprised primarily of leasing and shipping and handling revenues. The increase in other sales was primarily due to improved leasing revenues resulting from new lease contracts at our corporate headquarters. We continue to have vacant space available for lease at our corporate headquarters campus and we are actively seeking new tenants for this available property.

### Gross Profit

Gross profit consists of net sales less the cost of services provided or the cost of products sold. For the quarter ended November 26, 2011, our consolidated gross profit increased to \$26.5 million compared to \$25.1 million in the first quarter of fiscal 2011. The increase in gross profit was primarily attributable to increased book royalties and increased licensee revenues sales as previously described. These increases contributed to an improvement in our consolidated gross margin, which is gross profit stated in terms of a percentage of sales. Our gross margin for the quarter ended November 26, 2011 increased to 67.1 percent of sales compared to 63.6 percent in fiscal 2011. Due to the nature and impact of the book royalties recognized during the quarter, we anticipate that our gross margin will decline slightly in future periods of fiscal 2012.

### Operating Expenses

**Selling, General and Administrative** – Our selling, general, and administrative (SG&A) expenses increased \$1.6 million compared to the prior year. As a percent of sales, SG&A expenses increased to 54.1 percent of sales in the first quarter of fiscal 2012 compared to 50.2 percent of sales in the prior year. The increase in SG&A expenses was primarily due to 1) a \$0.8 million

increase in non-cash share-based compensation expense resulting primarily from new performance-based share awards granted in fiscal 2011 and during the first quarter of fiscal 2012; 2) a \$0.5 million increase in advertising and promotional costs that were primarily related to the launch of our new productivity offering *The 5 Choices to Extraordinary Productivity*; 3) a \$0.5 million increase in associate costs primarily due to the addition of new personnel; and 4) a \$0.3 million increase in travel-related expenses primarily related to promotional events for our new productivity offering mentioned above. These increases were partially offset by decreased auditing costs and by decreased rent expense compared to the prior year.

**Depreciation** – Depreciation expense decreased by \$0.1 million compared to the same quarter of fiscal 2011 primarily due to certain assets becoming fully depreciated. Based on acquisitions that occurred during the quarter ended November 26, 2011 and expected capital asset activity during the remainder of fiscal 2012, we expect depreciation expense to total approximately \$2.7 million for fiscal 2012.

**Amortization** – Amortization expense from definite-lived intangible assets decreased by \$0.3 million compared to the prior year primarily due to the full amortization of certain intangible assets in the fourth quarter of fiscal 2011. As a result, we currently expect that intangible asset amortization expense will decrease compared to periods in fiscal 2011 and will total approximately \$2.5 million in fiscal 2012.

#### **Income Taxes**

Our effective tax rate for the quarter ended November 26, 2011 of approximately 46 percent was somewhat higher than statutory combined rates primarily due to taxable interest income on outstanding management common stock loans and the tax differential on income subject to both foreign and U.S. taxation. The effective tax rate for the quarter ended November 26, 2011 includes the benefit of foreign tax credits to be claimed on our U.S. federal income tax returns. The effective tax rate for the quarter ended November 27, 2010 of approximately 71 percent did not include the benefit of such foreign tax credits because we did not initially believe the Company would be able to utilize the benefits during fiscal 2011.

However, our cash paid for income taxes will remain significantly less than our income tax provision during the foreseeable future as we utilize domestic net operating loss carryforwards and other deferred income tax assets. After our domestic net operating loss carryforwards are utilized, we will be able to utilize our foreign tax credits, which will reduce our income tax liability in future periods. After utilization of these deferred tax assets, we expect to report a more normalized income tax rate.

#### **LIQUIDITY AND CAPITAL RESOURCES**

At November 26, 2011 we had \$2.6 million of cash and cash equivalents compared to \$3.0 million at August 31, 2011 and our net working capital (current assets less current liabilities) increased to \$19.1 million at November 26, 2011 compared to \$16.7 million at August 31, 2011. Our primary sources of liquidity are cash flows from the sale of services and products in the normal course of business and proceeds from our revolving line of credit facility.

We may use the line of credit facility for general corporate purposes as well as for other transactions, unless prohibited by the terms of the line of credit agreement. The line of credit also contains customary representations and guarantees as well as provisions for repayment and liens. Our line of credit agreement expires in March 2012 and is therefore classified as a current obligation on our condensed consolidated balance sheet at November 26, 2011. At November 26, 2011, we had \$1.1 million outstanding on the line of credit and \$4.6 million outstanding on the term loan payable.

In addition to customary non-financial terms and conditions, our line of credit requires us to be in compliance with specified financial covenants, including (i) a funded debt to EBITDAR ratio requirement of less than 3.00 to 1.00; (ii) a fixed charge coverage ratio requirement in excess of 1.5

to 1.0; (iii) a minimum net worth of at least \$67.0 million; and (iv) a capital expenditure limitations of less than \$8.0 million per year. We believe that we were in compliance with the terms and covenants of the line of credit agreement for the quarter ended November 26, 2011.

In addition to our \$10.0 million revolving line of credit facility, we have a long-term lease on our corporate campus that is accounted for as a long-term financing obligation.

The following discussion is a description of the primary factors affecting our cash flows and their effects upon our liquidity and capital resources during the quarter ended November 26, 2011.

#### **Cash Flows From Operating Activities**

Our primary source of cash from operating activities was the sale of goods and services to our customers in the normal course of business. The primary uses of cash for operating activities were payments for selling, general, and administrative expenses, payments for direct costs necessary to conduct training programs, payments to suppliers for materials used in products sold, and to fund working capital needs. Our cash provided by operating activities totaled \$0.6 million for the quarter ended November 26, 2011 compared with \$2.1 million of cash used in the same quarter of the prior year. The improvement in cash flows from operating activities was primarily driven by continued improvements in our operations and by improved collections of accounts receivable compared to the prior year. We also used cash to pay our seasonally high August 31 accrued liabilities, which was primarily the result of year end commissions and bonuses. We believe that our continued efforts to improve working capital balances and improve income from operations will improve our cash flows from operating activities in future periods of fiscal 2012. However, the success of these efforts, and their eventual contribution to our cash flows, is dependent upon numerous factors, many of which are not within our control.

#### **Cash Flows From Investing Activities and Capital Expenditures**

During the quarter ended November 26, 2011 we used \$1.7 million of cash for investing activities. Our primary uses of cash for investing activities were additional spending on curriculum development and the purchase of property and equipment in the normal course of business. We spent \$1.1 million during the first quarter of fiscal 2012 to develop various new curriculums and offerings. Our purchases of property and equipment, which totaled \$0.6 million, consisted primarily of computer hardware, software, and office equipment.

#### **Cash Flows From Financing Activities**

During the first quarter of fiscal 2012 our net cash provided by financing activities totaled \$0.6 million, which consisted primarily of \$1.1 million of net proceeds from our line of credit facility. Partially offsetting the cash obtained from our line of credit and from the issuance of common stock from participants in our employee stock purchase plan was \$0.6 million of cash used for principal payments on our note payable to the bank and our financing obligation.

#### **Sources of Liquidity**

Going forward, we will continue to incur costs necessary for the operation and potential growth of the business. We anticipate using cash on hand, cash provided by the sale of goods and services to our clients on the condition that we can continue to generate positive cash flows from operating activities, proceeds from our line of credit, and other financing alternatives, if necessary, for these expenditures. We will soon begin negotiations with the lender on our line of credit and believe that we will be successful in obtaining a new or extended line of credit from our lender prior to the expiration of the current credit facility in March 2012 to ensure available liquidity in future periods. Additional potential sources of liquidity include factoring receivables, issuance of additional equity, or issuance of debt from public or private sources. However, no assurance can be provided

that we will obtain a new or extended line of credit or obtain additional financing from other sources on terms that would be acceptable to us. If necessary, we will evaluate all of these options and select one or more of them depending on overall capital needs and the associated cost of capital. If we are unsuccessful in obtaining a renewal or extension of our line of credit, or additional financing, we believe that cash flows from operations combined with a number of initiatives we would implement in the months preceding the due date would create sufficient liquidity to pay down the required outstanding balance on the line of credit. These initiatives include deferral of capital purchases for externally developed curriculum and uncommitted capital expenditures; deferral of executive team compensation; deferral of certain related party contractual earnout payments; substantial reduction of associate salaries; reduction of operating expenses, including non-critical travel; and deferral of payments to other vendors in order to generate sufficient cash.

Considering the foregoing, we anticipate that our existing capital resources should be adequate to enable us to maintain our operations for at least the upcoming twelve months. However, our ability to maintain adequate capital for our operations in the future is dependent upon a number of factors, including sales trends, our ability to contain costs, levels of capital expenditures, collection of accounts receivable, and other factors. Some of the factors that influence our operations are not within our control, such as economic conditions and the introduction of new technology and products by our competitors. We will continue to monitor our liquidity position and may pursue additional financing alternatives, as described above, to maintain sufficient resources for future growth and capital requirements. However, there can be no assurance such financing alternatives will be available to us on acceptable terms, or at all.

#### **Contractual Obligations**

The Company has not structured any special purpose or variable interest entities, or participated in any commodity trading activities, which would expose us to potential undisclosed liabilities or create adverse consequences to our liquidity. Required contractual payments primarily consist of 1) lease payments resulting from the sale of our corporate campus (financing obligation); 2) payments to HP Enterprise Services for outsourcing services related to information systems, warehousing, and distribution services; 3) minimum rent payments for office and warehouse space; 4) the repayment of our note payable and line of credit obligations; and 5) short-term purchase obligations for inventory items and other products and services used in the ordinary course of business. There have been no significant changes to our expected required contractual obligations from those disclosed at August 31, 2011.

According to the terms of the agreements associated with the sale of the Consumer Solutions Business Unit assets that closed in the fourth quarter of fiscal 2008, we assigned the benefits and obligations relating to the leases of our retail stores to FC Organization Products, LLC (FCOP and formerly Franklin Covey Products), an entity in which we own approximately 19 percent. However, we remain secondarily liable for these leases and may have to fulfill the obligations contained in the lease agreements, including making lease payments, if FCOP is unable to fulfill its obligations pursuant to the terms of the lease agreements. Any default by FCOP in its lease payment obligations could provide us with certain remedies against FCOP, including potentially allowing us to terminate the Master License Agreement with FCOP. If FCOP is unable to satisfy the obligations contained in the lease agreements and we are unable to obtain adequate remedies, our results of operations and cash flows may be adversely affected.

#### **Other Items**

The Company is the creditor for a loan program that provided the capital to allow certain management personnel the opportunity to purchase shares of our common stock. For further information regarding our management common stock loan program, refer to Note 11 to the consolidated financial statements in our annual report on Form 10-K for the fiscal year ended August 31, 2011. The inability of the Company to collect all, or a portion, of these receivables could have an adverse impact upon our financial position and future cash flows compared to full collection of the loans.



## USE OF ESTIMATES AND CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America. The significant accounting policies used to prepare our consolidated financial statements are outlined primarily in Note 1 of the consolidated financial statements presented in Part II, Item 8 of our annual report on Form 10-K for the fiscal year ended August 31, 2011. Some of those accounting policies require us to make estimates and assumptions that affect the amounts reported in our consolidated financial statements. We regularly evaluate our estimates and assumptions and base those estimates and assumptions on historical experience, factors that are believed to be reasonable under the circumstances, and requirements under accounting principles generally accepted in the United States of America. Actual results may differ from these estimates under different assumptions or conditions, including changes in economic conditions and other circumstances that are not within our control, but which may have an impact on these estimates and our actual financial results.

The following items require significant judgment and often involve complex estimates:

### Revenue Recognition

We derive revenues primarily from the following sources:

- **Training and Consulting Services** – We provide training and consulting services to both organizations and individuals in leadership, productivity, strategic execution, goal alignment, sales force performance, and communication effectiveness skills.
- **Products** – We sell books, audio media, training accessories, and other related products.

We recognize revenue when: 1) persuasive evidence of an agreement exists, 2) delivery of product has occurred or services have been rendered, 3) the price to the customer is fixed or determinable, and 4) collectability is reasonably assured. For training and service sales, these conditions are generally met upon presentation of the training seminar or delivery of the consulting services. For product sales, these conditions are generally met upon shipment of the product to the customer.

Some of our training and consulting contracts contain multiple deliverable elements that include training along with other products and services. For transactions that contain more than one element, we recognize revenue in accordance with the guidance for multiple element arrangements using the relative selling price method.

Our international strategy includes the use of licensees in countries where we do not have a wholly-owned operation. Licensee companies are unrelated entities that have been granted a license to translate our content and curriculum, adapt the content and curriculum to the local culture, and sell our training seminars and products in a specific country or region. Licensees are required to pay us royalties based upon a percentage of their sales to clients. We recognize royalty income each period based upon the sales information reported to us from our licensees. Royalty revenue is reported as a component of training and consulting service sales in our consolidated statements of operations.

Revenue is recognized as the net amount to be received after deducting estimated amounts for discounts and product returns.

### Share-Based Compensation

Our shareholders have approved a performance based long-term incentive plan (LTIP) that provides for grants of share-based performance awards to certain managerial personnel and executive management as directed by the Compensation Committee of the Board of Directors. The

number of common shares that are vested and issued to LTIP participants is variable and is based entirely upon the achievement of specified financial performance objectives during a defined performance period. Due to the variable number of common shares that may be issued under the LTIP, we reevaluate our LTIP grants on a quarterly basis and adjust the number of shares expected to be awarded based upon actual and estimated financial results of the Company compared to the performance goals set for the award. Adjustments to the number of shares awarded, and to the corresponding compensation expense, are made on a cumulative basis at the adjustment date based upon the estimated probable number of common shares to be awarded.

The analysis of our LTIP awards contain uncertainties because we are required to make assumptions and judgments about the eventual number of shares that will vest in each LTIP grant. The assumptions and judgments that are essential to the analysis include forecasted sales and operating income levels during the LTIP service periods. The evaluation of LTIP performance awards and the corresponding use of estimated amounts may produce additional volatility in our consolidated financial statements as we record cumulative adjustments to the estimated number of common shares to be awarded under the LTIP grants as described above.

During fiscal 2011 and in fiscal 2010, we also granted share-based compensation awards that have a share price, or market based, vesting conditions. As a result, we used a Monte Carlo simulation to determine the fair value and expected term of these awards. The Monte Carlo pricing model required the input of subjective assumptions, including items such as the expected term of the options. If factors change, and we use different assumptions for estimating share-based compensation expense related to these awards, our share-based compensation expense may differ materially from that recorded in the current period.

#### **Accounts Receivable Valuation**

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

Our allowance for doubtful accounts calculations contain uncertainties because the calculations require us to make assumptions and judgments regarding the collectability of customer accounts, which may be influenced by a number of factors that are not within our control, such as the financial health of each customer. We regularly review the collectability assumptions of our allowance for doubtful accounts calculation and compare them against historical collections. Adjustments to the assumptions may either increase or decrease our total allowance for doubtful accounts. For example, a 10 percent increase to our allowance for doubtful accounts at November 26, 2011 would decrease our reported income from operations by approximately \$0.1 million.

#### **Inventory Valuation**

Our inventories are primarily comprised of training materials and related accessories. Inventories are stated at the lower of cost or market with cost determined using the first-in, first-out method. Inventories are reduced to their fair market value through the use of inventory valuation reserves, which are recorded during the normal course of business.

Our inventory valuation calculations contain uncertainties because the calculations require us to make assumptions and judgments regarding a number of factors, including future inventory demand requirements and pricing strategies. During the evaluation process we consider historical sales patterns and current sales trends, but these may not be indicative of future inventory losses.

While we have not made material changes to our inventory valuation methodology during the past three years, our inventory requirements may change based on projected customer demand, technological and product life cycle changes, longer or shorter than expected usage periods, and other factors that could affect the valuation of our inventories. If our estimates regarding consumer demand and other factors are inaccurate, we may be exposed to losses that may have an adverse impact upon our financial position and results of operations. For example, a 10 percent increase to our inventory valuation reserves at November 26, 2011 would decrease our reported income from operations by \$0.1 million.

#### **Indefinite-Lived Intangible Assets and Goodwill**

Intangible assets that are deemed to have an indefinite life and goodwill balances are not amortized, but rather are tested for impairment on an annual basis, or more often if events or circumstances indicate that a potential impairment exists. The Covey trade name intangible asset was generated by the merger with the Covey Leadership Center and has been deemed to have an indefinite life. This intangible asset is tested for impairment using the present value of estimated royalties on trade name related revenues, which consist primarily of training seminars and international licensee royalties. Our goodwill was generated by the acquisition of CoveyLink Worldwide, LLC during fiscal 2009 and the subsequent payment of the first two of five contingent annual earnout payments contained in the acquisition agreement.

Our impairment evaluation calculations for goodwill and the Covey trade name contain uncertainties because they require us to make assumptions and apply judgment in order to estimate future cash flows, to estimate an appropriate royalty rate, and to select a discount rate that reflects the inherent risk of future cash flows. Our valuation methodology for the Covey trade name has remained unchanged during the past three years. However, if forecasts and assumptions used to support the carrying value of our indefinite-lived intangible asset change in future periods, significant impairment charges could result that would have an adverse effect upon our results of operations and financial condition. The valuation methodologies for both indefinite-lived intangible assets and goodwill are also dependent upon the share price of our common stock and our corresponding market capitalization, which may differ from estimated royalties used in our annual impairment testing. Based upon the fiscal 2011 evaluation of the Covey trade name and goodwill, our trade-name related revenues, licensee royalties, and overall sales levels would have to suffer significant reductions before we would be required to impair them. However, future declines in our share price may trigger additional impairment testing and may result in impairment charges.

#### **Impairment of Long-Lived Assets**

Long-lived tangible assets and definite-lived intangible assets are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We use an estimate of undiscounted future net cash flows of the assets over their remaining useful lives in determining whether the carrying value of the assets is recoverable. If the carrying values of the assets exceed the anticipated future cash flows of the assets, we calculate an impairment loss. The impairment loss calculation compares the carrying value of the asset to the asset's estimated fair value, which may be based upon discounted cash flows over the estimated remaining useful life of the asset. If we recognize an impairment loss, the adjusted carrying amount of the asset becomes its new cost basis, which is then depreciated or amortized over the remaining useful life of the asset. Impairment of long-lived assets is assessed at the lowest levels for which there are identifiable cash flows that are independent from other groups of assets.

Our impairment evaluation calculations contain uncertainties because they require us to make assumptions and apply judgment in order to estimate future cash flows, forecast the useful lives of the assets, and select a discount rate that reflects the risk inherent in future cash flows. Although we have not made any material recent changes to our long-lived assets impairment assessment methodology, if forecasts and assumptions used to support the carrying value of our long-lived

tangible and definite-lived intangible assets change in the future, significant impairment charges could result that would adversely affect our results of operations and financial condition.

#### **Income Taxes**

We regularly evaluate our United States federal and various state and foreign jurisdiction income tax exposures. We account for certain aspects of our income tax provision using the provisions of FASC 740-10-05 (formerly FIN 48), which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. We may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon final settlement. The provisions of FASC 740-10-05 also provide guidance on de-recognition, classification, interest, and penalties on income taxes, accounting for income taxes in interim periods, and require increased disclosure of various income tax items. Taxes and penalties are components of our overall income tax provision.

We record previously unrecognized tax benefits in the financial statements when it becomes more likely than not (greater than a 50 percent likelihood) that the tax position will be sustained. To assess the probability of sustaining a tax position, we consider all available evidence. In many instances, sufficient positive evidence may not be available until the expiration of the statute of limitations for audits by taxing jurisdictions, at which time the entire benefit will be recognized as a discrete item in the applicable period.

Our unrecognized tax benefits result from uncertain tax positions about which we are required to make assumptions and apply judgment to estimate the exposures associated with our various tax filing positions. The calculation of our income tax provision or benefit, as applicable, requires estimates of future taxable income or losses. During the course of the fiscal year, these estimates are compared to actual financial results and adjustments may be made to our tax provision or benefit to reflect these revised estimates. Our effective income tax rate is also affected by changes in tax law and the results of tax audits by various jurisdictions. Although we believe that our judgments and estimates discussed herein are reasonable, actual results could differ, and we could be exposed to losses or gains that could be material.

We establish valuation allowances for deferred tax assets when we estimate it is more likely than not that the tax assets will not be realized. The determination of whether valuation allowances are needed on our deferred income tax assets contains uncertainties because we must project future income, including the use of tax-planning strategies, by individual tax jurisdictions. Changes in industry and economic conditions and the competitive environment may impact the accuracy of our projections. We regularly assess the likelihood that our deferred tax assets will be realized and determine if adjustments to our valuation allowance are necessary.

#### **ACCOUNTING PRONOUNCEMENTS ISSUED NOT YET ADOPTED**

In September 2011, the Financial Accounting Standards Board (FASB) issued accounting standards update (ASU) 2011-08, *Testing Goodwill for Impairment*. The objective of ASU 2011-08 is to simplify how entities, both public and nonpublic, test goodwill for impairment. These amendments permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. Previous guidance required an entity to test goodwill for impairment, on at least an annual basis, by comparing the fair value of a reporting unit with its carrying amount, including goodwill (step one). If the fair value of a reporting

unit is less than its carrying amount, then the second step of the test must be performed to measure the amount of the impairment loss, if any. Under the amendments in ASU 2011-08, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The guidance in ASU 2011-08 is effective for annual and interim goodwill assessments performed for fiscal years beginning after December 15, 2011 and early adoption is permitted. We did not early adopt the provisions of this guidance and have not yet completed our assessment of the impacts on our financial statements.

#### **SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

Certain written and oral statements made by the Company in this report are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934 as amended (the Exchange Act). Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain words such as “believe,” “anticipate,” “expect,” “estimate,” “project,” or words or phrases of similar meaning. In our reports and filings we may make forward looking statements regarding our expectations about future sales levels, future training and consulting sales activity, anticipated expenses, future gross margins, the adequacy of existing capital resources, our ability to obtain a new or extended line of credit, our ability to maintain adequate capital for our operations, projected cost reduction and strategic initiatives, expected levels of depreciation and amortization expense, expectations regarding tangible and intangible asset valuations, expectations regarding future tax liabilities and offsetting credits, the seasonality of future sales, the seasonal fluctuations in cash used for and provided by operating activities, expected improvements in cash flows from operating activities, expected improvements in our working capital, future compliance with the terms and conditions of our line of credit, the ability to borrow on our line of credit, expected repayment of our line of credit in future periods, expected repayment of amounts receivable from FC Organizational Products LLC, estimated capital expenditures, and cash flow estimates used to determine the fair value of long-lived assets. These, and other forward-looking statements, are subject to certain risks and uncertainties that may cause actual results to differ materially from the forward-looking statements. These risks and uncertainties are disclosed from time to time in reports filed by us with the SEC, including reports on Forms 8-K, 10-Q, and 10-K. Such risks and uncertainties include, but are not limited to, the matters discussed in Item 1A of our annual report on Form 10-K for the fiscal year ended August 31, 2011, entitled “Risk Factors.” In addition, such risks and uncertainties may include unanticipated developments in any one or more of the following areas: unanticipated costs or capital expenditures; difficulties encountered by HP Enterprise Services in operating and maintaining our information systems and controls, including without limitation, the systems related to demand and supply planning, inventory control, and order fulfillment; delays or unanticipated outcomes relating to our strategic plans; dependence on existing products or services; the rate and consumer acceptance of new product introductions; competition; the number and nature of customers and their product orders, including changes in the timing or mix of product or training orders; pricing of our products and services and those of competitors; adverse publicity; and other factors which may adversely affect our business.

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

The market price of our common stock has been and may remain volatile. In addition, the stock markets in general have experienced increased volatility. Factors such as quarter-to-quarter

variations in revenues and earnings or losses and our failure to meet expectations could have a significant impact on the market price of our common stock. In addition, the price of our common stock can change for reasons unrelated to our performance. Due to our low market capitalization, the price of our common stock may also be affected by conditions such as a lack of analyst coverage and fewer potential investors.

Forward-looking statements are based on management's expectations as of the date made, and the Company does not undertake any responsibility to update any of these statements in the future except as required by law. Actual future performance and results will differ and may differ materially from that contained in or suggested by 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 our filings with the SEC.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes from the information previously reported under Item 7A of our Annual Report on Form 10-K for the fiscal year ended August 31, 2011. During the quarter ended November 26, 2011, we did not utilize any foreign currency or interest rate derivative instruments.

### ITEM 4. CONTROLS AND PROCEDURES

#### **Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f)) during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

On April 20, 2010, Moore Wallace North America, Inc. doing business as TOPS filed a complaint against FC Organizational Products, LLC (FCOP) in the Circuit Court of Cook County, Illinois, for breach of contract. The complaint also named us as a defendant and alleged that we should be liable for FCOP's debts under the doctrine of alter ego or fraudulent transfer. On December 23, 2011, Moore Wallace North America, Inc., FCOP, and the Company entered into a settlement agreement and mutual release. Under the terms of this agreement, FCOP paid Moore Wallace North America, Inc. a specified sum to settle the complaint.

Item 1A. RISK FACTORS

For further information regarding our Risk Factors, please refer to Item 1A in our Annual Report on Form 10-K for the fiscal year ended August 31, 2011.

Item 6. EXHIBITS

(A) Exhibits:

- 3.1 Amended and Restated Bylaws of Franklin Covey Co., as amended by the First Amendment to the Amended and Restated Bylaws, dated December 16, 2011.
  
- 31.1 Rule 13a-14(a) Certifications of the Chief Executive Officer.
- 31.2 Rule 13a-14(a) Certifications of the Chief Financial Officer.
  
- 32 Section 1350 Certifications.

SIGNATURES

Pursuant to the requirements 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.

FRANKLIN COVEY CO.

Date: January 5, 2012

By: /s/ Robert A. Whitman  
Robert A. Whitman  
Chief Executive Officer

Date: January 5, 2012

By: /s/ Stephen D. Young  
Stephen D. Young  
Chief Financial Officer



**AMENDED AND RESTATED BYLAWS**

**OF**

**FRANKLIN COVEY CO.**

**ARTICLE I**

**Offices**

Section 1. **Business Offices.** The principal office of the corporation shall be located at 2200 West Parkway Boulevard, Salt Lake City, Utah 84119. The corporation may have such other offices, either within or outside Utah, as the board of directors may designate or as the business of the corporation may require from time to time.

Section 2. **Registered Office.** The registered office of the corporation, required by the Utah Revised Business Corporation Act to be maintained in Utah, may be but is not necessarily identical with the principal office if in Utah, and the address of the registered office may be changed from time to time by the board of directors.

**ARTICLE II**

**Shareholders**

Section 1. **Annual Meetings.** An annual meeting of the shareholders shall be held on the second Friday of January in each year, or on such other date as may be determined by the board of directors, for the purpose of electing directors and for the transaction of such other business as may come before the meeting. If the day fixed for the annual meeting shall be a legal holiday, such meeting shall be held on the next succeeding business day. If the election of directors shall not be held on the day designated in these bylaws for any annual meeting of the shareholders, or at any adjournment of such meeting, the board of directors shall cause the election to be held at a meeting of the shareholders as soon after such annual meeting (as the same may be adjourned) as is convenient. Failure to hold an annual meeting as required by these bylaws shall not invalidate any action taken by the board of directors or officers of the corporation.

Section 2. **Special Meetings.** Special meetings of the shareholders for any purpose or purposes, unless otherwise prescribed by statute, may be called by the chairman of the board of directors, the president, or the board of directors and shall be called by the president at the request of the holders of not less than one-tenth of all the outstanding shares of the corporation entitled to vote at the meeting.

Section 3. **Place of Meetings.** Each annual or special meeting of the shareholders shall be held at such place, either within or outside Utah, as may be designated in the notice of meeting. If no place is designated in any such notice, the relevant meeting shall be held at the registered office of the corporation in Utah.

Section 4. Notice of Meetings. Except as otherwise prescribed by statute, written notice of each meeting of the shareholders stating the place, day and hour of the meeting, and in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given not less than ten nor more than sixty days before the date of the meeting, either personally or by first class, certified or registered mail, by or at the direction of the president, the secretary, or the officer or persons calling the meeting, to each shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be given when deposited in the United States mail, addressed to each shareholder at such shareholder's address as it appears on the stock transfer books of the corporation, with postage prepaid. Notwithstanding the foregoing, if three successive notices mailed to the last known address reflected on the corporate records for any shareholder of record are returned as undeliverable, no further notices to such shareholder shall be necessary, unless otherwise required by governing rule or law, until another address for such record holder is made known to the corporation. If properly requested by a person other than the corporation properly calling a meeting, the secretary shall give notice of such meeting at corporate expense. Any shareholder may waive notice of any meeting. The attendance of a shareholder at a meeting (or participation by a shareholder in a meeting by means of conference telephone or similar communications equipment) shall constitute a waiver of notice of such meeting, unless the shareholder objects at the beginning of the meeting because of lack of notice or defective notice.

Section 5. Fixing of Record Date. The board of directors may fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than 60 days, and in case of a meeting of the shareholders, not less than 10 days, prior to the date on which the particular action requiring such determination of shareholders is to be taken. If no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of the shareholders or entitled to receive payment of a dividend, the date on which notice of the meeting is mailed or the date on which the resolution of the board of directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of the shareholders has been made as provided in this Section, such determination shall apply to any adjournment of such meeting, unless such adjournment lasts for more than 120 days from the date of the original meeting, in which event a new record date must be established. Notwithstanding the foregoing, a new record date will not be required if the adjournment is ordered by a court and the court orders that the original record date be used.

Section 6. Voting List. The officer or agent having charge of the stock transfer books for shares of the corporation shall make a complete list of the shareholders who are entitled to be given notice of a meeting of the shareholders, arranged in alphabetical order, with the address of and the number of shares held by each. The shareholder list must be available for inspection by any shareholder, beginning on the earlier of ten days before the meeting for which the list was prepared or two business days after notice of the meeting is given and continuing throughout the meeting and any meeting adjournments. The original stock transfer books shall be prima facie evidence as to the shareholders who are entitled to examine such list or transfer books or to vote at any meeting of the shareholders. Failure to comply with the requirements of this Section shall not affect the validity of any action taken at such meeting.

Section 7. Proxies. At each meeting of the shareholders, a shareholder may vote in person or by proxy executed in writing by the shareholder or by such shareholder's duly authorized attorney-in-fact, or by a written statement of the appointment transmitted by telegram, teletype or other electronic transmission along with evidence from which it can be determined that the shareholder transmitted or authorized the transmission of the appointment. Such proxy shall be filed with the secretary of the corporation or other person authorized to tabulate votes before or at the time of the meeting. No proxy shall be valid after eleven months from the date of such proxy's execution, unless otherwise provided in the proxy.

Section 8. Quorum. Except as otherwise required by statute, a majority of the outstanding shares of the corporation entitled to vote on a matter, represented in person or by proxy, shall constitute a quorum for action on such matter at each meeting of the shareholders. If a quorum exists, a matter will be approved if the number of votes cast in favor of such matter exceeds the number of votes cast against such matter. If less than a majority of the outstanding shares are represented at a meeting a majority of the shares so represented may adjourn the meeting without further notice other than an announcement at the meeting of the new date, time and place; provided, however, that if the adjournment is for more than thirty days, or if after the adjournment a new record date for the adjourned meeting is or must be fixed by statute under these bylaws, notice of the adjourned meeting must be given to shareholders of record who are entitled to vote at the meeting. At such adjourned meeting, at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. The shareholders present at a duly noticed or held meeting at which a quorum is present at some point, may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

Section 9. Voting of Shares. Except as otherwise provided by law, the articles of incorporation or these bylaws, each outstanding share of record is entitled to vote on each matter submitted to a vote of the shareholders either at a meeting of the shareholders or pursuant to Section 11 of this Article II.

Section 10. Voting of Shares by Certain Holders. Shares held by another corporation, if a majority of the shares entitled to vote for the election of directors of such other corporation is held by the corporation, may not be voted at any meeting or counted in determining the total number of outstanding shares at any given time. Shares standing in the name of another corporation may be voted by a duly authorized officer, agent, or proxy as the bylaws of such corporation may prescribe, or, in the absence of such provision, as the board of directors of such corporation may determine. Shares held by an administrator, executor, guardian or conservator may be voted by such person, either in person or by proxy, without a transfer of such shares into such person's name. Shares standing in the name of a trust or a trustee may be voted by the trustee, either in person or by proxy. Shares standing in the name of a receiver may be voted by such receiver, and shares held by or under the control of a receiver may be voted by such receiver without the transfer of such shares into such receiver's name if authority to do so is contained in an appropriate order of the court by which such receiver was appointed.

Section 11. Action Without a Meeting. Any action required or permitted to be taken at a meeting of the shareholders may be taken without a meeting and without prior notice if one or more consents in writing (which may be signed in counterparts), setting forth the action so taken,

shall be signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take the action at a meeting at which all shares entitled to vote were present and voted.

### ARTICLE III

#### **Board of Directors**

Section 1. **General Powers.** The business and affairs of the corporation shall be managed under the direction of the corporation's board of directors, except as otherwise provided in the Utah Revised Business Corporation Act, the articles of incorporation or these bylaws.

Section 2. **Number, Tenure, and Qualifications.** The corporation shall have not less than three and not more than fifteen directors, unless the number of voting shareholders is less than three, in which case the minimum number of directors may be the same as the number of voting shareholders. The directors of the corporation shall be divided into three classes in respect of term of office, each class to consist of as near as may be one-third of the total number of directors serving on the board of directors. At each annual meeting of the shareholders, one class of directors shall be elected to serve until the next annual meeting of the shareholders held three years next following and until their successors shall have been elected and qualified or until such director's earlier death, resignation or removal. Directors need not be residents of Utah or shareholders of the corporation. The directors may elect from their number a director to serve as chairman of the board of directors, for such term and with such authority as may be granted by the board of directors.

Section 3. **Vacancies; Removal.** Any director may resign at any time by giving written notice through the chief executive officer or the registered agent. A director's resignation shall take effect on receipt of such notice unless another time is specified in such notice, and unless otherwise specified in such notice, the acceptance of such resignation shall not be necessary to make such resignation effective. Any vacancy occurring on the board of directors may be filled by the affirmative vote of a majority of the remaining directors though less than a quorum of the board of directors, or by the shareholders. A director elected to fill a vacancy shall be elected for the unexpired term of such director's predecessor in office. Any directorship to be filled by reason of an increase in the number of directors shall be filled by the affirmative vote of a majority of the directors then in office or by an election at a meeting of the shareholders called for that purpose, and a director so chosen shall hold office until the next annual meeting of shareholders and his successor is elected and qualified. At a meeting called expressly for that purpose, one or more directors or the entire board of directors may be removed, with or without cause, by a vote of the holders of a majority of the shares then entitled to vote at an election of directors. Any directorship to be filled by reason of the removal of one or more directors by the shareholders or for any other reason may be filled by election by the shareholders at the meeting at which the director or directors are removed.

Section 4. **Regular Meetings.** A regular meeting of the board of directors shall be held immediately after and at the same place as the annual meeting of shareholders, or as soon thereafter as practicable, for the purpose of electing officers and for the transaction of such other

business as may come before the meeting. The board of directors may provide by resolution the time and place, either within or outside Utah, for the holding of additional regular meetings.

Section 5. Special Meetings. Special meetings of the board of directors may be called by or at the request of the president or any two directors. The person or persons authorized to call special meetings of the board of directors may fix any place as the place, either within or outside Utah, for holding any special meeting of the board of directors called by such person(s).

Section 6. Notice. Notice of each meeting of the board of directors stating the place, day and hour of the meeting shall be given to each director at least ten days prior to such meeting by the mailing of written notice by first class, certified, registered mail or overnight mail, or at least five days prior to such meeting by personal delivery of written notice or by telephonic or facsimile notice, except that in the case of a meeting to be held pursuant to Section 11 of this Article III, telephone notice may be given one day prior to such meeting. The method of notice need not be the same to each director. Notice shall be deemed to be given, if mailed, on the date it is deposited in the United States mail, with postage prepaid, addressed to the director at such director's business or residence address; if personally delivered; when delivered to the director; if delivered via facsimile, upon confirmation of receipt by the receiving facsimile machine; and, if telephoned, when communicated to the director. Any director may waive notice of any meeting. The attendance of a director at a meeting (or participation by a director in a meeting by means of conference telephone or similar communications equipment) shall constitute a waiver of notice of such meeting, except where a director objects to the holding of the meeting at the beginning of the meeting or promptly on such director's arrival. Neither the business to be transacted at, nor the purpose of, any meeting of the board of directors need be specified in the notice or waiver of notice of such meeting unless required by statute.

Section 7. Presumption of Assent. A director of the corporation who is present at a meeting of the board of directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken at the meeting unless the director objects at the beginning of the meeting, or promptly on arrival, to holding the meeting or transacting business at the meeting and does not thereafter vote for or consent to any action taken at the meeting, or the director contemporaneously requests his dissent or abstention as to any specific action to be entered into the minutes of the meeting, or the director causes written notice of a dissent or abstention as to a specific action to be received by the presiding officer of the meeting before adjournment of the meeting or by the corporation promptly after adjournment of the meeting.

Section 8. Quorum and Voting. A majority of the number of directors in office immediately before the meeting begins shall constitute a quorum for the transaction of business at any meeting of the board of directors, and the vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors. If less than such majority is present at a meeting, a majority of the directors present may adjourn the meeting from time to time without further notice other than an announcement at the meeting until a quorum shall be present. No director may vote or act by proxy at any meeting of directors.

Section 9. Fees and Compensation. Directors of the corporation and members of committees established by the board of directors may receive such compensation, if any, for their services and such reimbursement of expenses as may be fixed or determined by resolution of the

board of directors. This section shall not be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee or otherwise and receiving compensation for those services.

Section 10. Executive and Other Committees. By one or more resolutions adopted by the majority of the board of directors, the board of directors may designate from among the members of the board of directors an executive committee and one or more other committees consisting of not less than two directors, each of which (to the extent provided in the resolution establishing such committee) shall have, and may exercise, all of the authority of the board of directors, except as prohibited by statute. Rules governing procedures for meetings of any committee of the board of directors shall be as established by the committee or, if the committee fails to do so, by the board of directors,

Section 11. Meetings by Telephone. Members of the board of directors or any committee of the board of directors may participate in a meeting of the board of directors or committee by means of conference telephone or similar communications equipment by which all persons participating in the meeting can hear each other. Such participation shall constitute presence in person at the meeting.

Section 12. Action Without a Meeting. Any action required or permitted to be taken at a meeting of the directors or any committee of the board of directors may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the directors or committee members entitled to vote with respect to the subject matter concerned. Such consent (which may be signed in counterparts) shall have the same force and effect as a unanimous vote of the directors or committee members and may be stated as such in any articles or documents filed with the Utah Department of Commerce, Division of Corporations and Commercial Code or other governmental agency.

## ARTICLE IV

### Officers

Section 1. Number and Qualifications. In addition to the officers prescribed by statute, the board of directors may elect or appoint such other officers, assistant officers and agents, including a chairman of the board, vice-presidents, a controller, assistant secretaries, a treasurer and assistant treasurers, as the board of directors may consider necessary. Any two or more offices may be held by the same person, except that the offices of president and secretary shall not be held by the same person. **[All officers must be at least 21 years old.]**

Section 2. Election and Term of Office. The officers of the corporation shall be appointed by the board of directors annually at the first regular quarterly meeting of the board of directors held after each annual meeting of the shareholders. If the appointment of officers shall not occur at such meeting, such appointment shall be held as soon after such annual meeting as is convenient. Each officer shall hold office until such officer's successor is duly appointed and qualified or until such officer's earlier death, resignation or removal.

Section 3. Compensation. The compensation of the officers shall be determined from time to time by the board of directors, and no officer shall be prevented from receiving any compensation by reason of the fact that such officer is also a director of the corporation.

Section 4. Removal. Any officer may be removed by the board of directors or by a committee, if any, authorized by the board of directors, at any time, with or without cause. Such removal shall be without prejudice to the contract rights, if any, of the person so removed. Appointment of an officer or agent shall not in itself create contract rights.

Section 5. Vacancies. Any officer may resign at any time, subject to any rights or obligations under any existing contracts between the officer and the corporation, by giving written notice to the president or to the board of directors. An officer's resignation shall take effect at the time specified in such resignation, and the acceptance of such resignation shall not be necessary to make such resignation effective. A vacancy in any office, however occurring, may be filled by the board of directors.

Section 6. Authority and Duties of Officers. The officers of the corporation shall have the authority and shall exercise the powers and perform the duties specified below and as may be additionally specified by the president, the board of directors or these bylaws, except that in any event, each officer shall exercise such powers and perform such duties as may be required by law:

(a) President. The President shall, subject to the direction and supervision of the board of directors: (i) be the chief operating officer of the corporation and have general and active control of the affairs and business of the corporation and general supervision of its officers, agents and employees; (ii) preside, in the absence of the chairman of the board, at all meetings of the shareholders and the board of directors, (iii) see that all orders and resolutions of the board of directors are carried into effect; and (iv) perform all other duties incident to the office of president and as from time to time may be assigned to the president by the board of directors.

(b) Vice-Presidents. The vice-presidents shall assist the president and shall perform such duties as may be assigned by the president or by the board of directors. Such officers shall, at the request of the president, or in his absence, inability, or refusal to act, perform the duties of the president and when so acting, shall have all the powers of and be subject to all the restrictions on the president.

(c) Secretary. The secretary shall: (i) keep the minutes of the proceedings of the shareholders, the board of directors and any committees of the board of directors; (ii) keep a record of all actions taken by the shareholders, the board of directors and any committees of the board of directors without a meeting; (iii) see that all notices are duly given in accordance with the provisions of these bylaws or as required by law; (iv) keep a record of all waivers of notices of meetings of the shareholders, the board of directors and any committees of the board of directors; (v) be custodian of the corporate records and of the seal of the corporation; (vi) keep at the corporation's registered office or principal place of business within or outside Utah a record containing the names and addresses of all shareholders and the number and class of shares held by each, unless such a record shall be kept at the office of the corporation's transfer agent or

registrar; (vii) have general charge of the stock transfer books of the corporation, unless the corporation has a transfer agent; and (viii) perform all other duties incident to the office of secretary and such other duties as from time to time may be assigned by the board of directors or the president. Assistant secretaries, if any, shall have the same duties and powers, subject to the supervision of the secretary.

(d) Treasurer. The treasurer shall: (i) be the principal financial officer of the corporation and have the care and custody of all of the corporation's funds, securities, evidences of indebtedness and other personal property and deposit the same in accordance with the instructions of the board of directors; (ii) receive and give receipts for monies paid into or on account of the corporation and pay out of the funds on hand all bills, payrolls, and other just debts of the corporation of whatever nature on maturity; (iii) unless there is a controller, be the principal accounting officer of the corporation and as such prescribe and maintain the methods and systems of accounting to be followed, keep complete books and records of account, prepare and file all local, state and federal tax returns, prescribe and maintain an adequate system of internal audit, and prepare and furnish to the president and the board of directors statements of account showing the financial position of the corporation and the results of the corporation's operations; (iv) on request of the board of directors, make such reports to the board of directors as may be required at any time; and (v) perform all other duties incident to the office of treasurer and such other duties as from time to time may be assigned by the board of directors, or the president. Assistant treasurers, if any, shall have the same powers and duties, subject to supervision by the treasurer. In the absence of a treasurer, the secretary shall perform the foregoing functions of the treasurer.

Section 7. Surety Bonds. The board of directors may require any officer of the corporation to execute to the corporation a bond in such sums and with such sureties as shall be satisfactory to the board of directors, conditioned on the faithful performance of such officer's duties and for the restoration to the corporation of all books, papers, vouchers, money and other property of whatever kind belonging to the corporation in the possession or under the control of such officer.

## ARTICLE V

### Shares

Section 1. Issuance of Shares. The issuance or sale by the corporation of any shares of the corporation's authorized capital stock of any class, including treasury shares, shall be made only on authorization by the board of directors, except as otherwise may be provided by statute.

Section 2. Certificates. The shares of the corporation shall be represented by certificates unless otherwise provided by the board of directors. The certificates shall be in such form consistent with law as shall be prescribed by the board of directors. The certificates representing shares of stock of the corporation shall be consecutively numbered. The certificates shall be signed by two officers as designated by the board of directors, or in the absence of such designation, by the president and either the secretary or the treasurer.



Section 3. Consideration for Shares. Shares shall be issued for such consideration expressed in dollars as shall be fixed from time to time by the board of directors. In the absence of fraud in the transaction, the judgment of the board of directors as to the value of the consideration received for shares shall be conclusive.

Section 4. Lost Certificates. In case of the alleged loss, destruction or mutilation of a certificate of stock, the board of directors may direct the issuance of a new certificate in lieu of such certificate on such terms and conditions in conformity with law as the board of directors may prescribe. The board of directors may, in the discretion of the board of directors, require a bond in such form and amount and with such surety as the board of directors may determine before issuing a new certificate.

Section 5. Transfer of Shares. On surrender to the corporation or to a transfer agent of the corporation of a certificate of stock duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, in accordance with all of the provisions of the laws of Utah, it shall be the duty of the corporation to issue a new certificate to the person entitled to such new certificate and to cancel the old certificate. Every such transfer of stock shall be entered on the stock transfer books of the corporation.

Section 6. Holder of Record. The corporation shall be entitled to treat the holder of record of any share as the holder-in-fact of such share and accordingly shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person whether or not the corporation shall have express or other notice of such claim or interest, except as may be required by the laws of Utah.

Section 7. Transfer Agents, Registrars, and Paying Agents. The board of directors may, in the discretion of the board of directors, appoint one or more transfer agents or registrars for making payment on any class of stock, bond, debenture or other security of the corporation. Such agents and registrars may be located either within or outside Utah. They shall have such rights and duties and shall be entitled to such compensation as may be agreed.

## ARTICLE VI

### Indemnification

Section 1. Definitions. For purposes of this Article VI, the following terms shall have the meanings set forth below:

(a) "Action" means any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitratve or investigative.

(b) "Indemnified Party" means any person who is or was a party or is threatened to be made a party to any Action by reason of the fact that such person is or was a director, officer, employee or agent of the corporation (which shall include actions taken in connection with or relating to the organization of the corporation) or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation,

partnership, joint venture, trust or other enterprise, including, without limitation, any employee benefit plan of the corporation for which any such person is or was serving as trustee, plan administrator or other fiduciary.

Section 2. Indemnification. The corporation, to the maximum extent permitted, and in the manner required by the laws of the State of Utah, shall indemnify any Indemnified Party against any and all applicable claims, judgments, fines, amounts paid in settlement, and other costs actually and reasonably incurred in any Action giving rise to the Indemnified Party's status as such.

Section 3. Determination. The corporation may not indemnify an Indemnified Party under Section 2 unless a determination has been made in the specific case that indemnification of the Indemnified Party is permissible under the circumstances and under the law of the State of Utah. Such determination with respect to an Indemnified Party shall be made (1) by the board of directors by majority vote of those present at a meeting at which a quorum is present, and only those directors not parties to the Action shall be counted in satisfying the quorum, (2) if a quorum cannot be attained, by majority vote of a committee of the board of directors, which committee shall consist of two or more directors not parties to the Action, except that directors who are parties to the action may participate in the designation of directors for the committee, (3) by special legal counsel selected by the board of directors or its committee in the manner prescribed in clauses (1) or (2) of this Section 3, or (4) by the shareholders, by a majority of the votes cast by holders of qualified shares that are present in person or by proxy at a meeting.

Section 4. Payment in Advance. Expenses, including attorneys' fees, or some part of such expenses, incurred by an Indemnified Party in defending any Action shall be paid by the corporation in advance of the final disposition of such Action upon the receipt of written undertaking by or on behalf of the Indemnified Party to repay the amount advanced if it is ultimately determined that such Indemnified Party is not entitled to be indemnified by the corporation as authorized under applicable law.

Section 5. Other Indemnification. The indemnification and advancement of expenses provided by this Article VI shall not be construed to be exclusive of or limit any other rights to which any Indemnified Party or other person may be entitled under the articles of incorporation or any bylaw, agreement, vote of the shareholders or disinterested directors or otherwise, both as to action in such Indemnified Party's official capacity and as to action in another capacity while holding office.

Section 6. Period of Indemnification. Any indemnification or advancement of expenses pursuant to this Article VI shall, unless otherwise provided when the indemnification or advancement of expenses is authorized or ratified, continue as to any Indemnified Party who has ceased to be a director, officer, employee, or agent of the corporation, or who at the request of the corporation, was serving as and has since ceased to be a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, including, without limitation, any employee benefit plan of the corporation for which any such person served as trustee, plan administrator, or other fiduciary, and shall inure to the benefit of the heirs and personal representatives of such Indemnified Party. The repeal or amendment of this Article VI

or of any Section or provision thereof which would have the effect of limiting, qualifying, or restricting any of the powers or rights of indemnification provided or permitted in this Article VI shall not, solely by reason of such repeal or amendment, eliminate, restrict, or otherwise affect the right or power of the corporation to indemnify any person or affect any right of indemnification of such person, with respect to any acts or omissions which occurred prior to such repeal or amendment.

Section 7. Insurance. By action of the board of directors, notwithstanding any interest of the directors in such Action, the corporation may purchase and maintain insurance in such amounts as the board of directors may deem appropriate on behalf of any Indemnified Party against any liability asserted against such Indemnified Party and incurred by such Indemnified Party in such Indemnified Party's capacity, or arising out of such Indemnified Party's status, as an Indemnified Party, whether or not the corporation would have the power to indemnify such Indemnified Party against such liability under applicable provisions of law.

Section 8. Right to Impose Conditions to Indemnification. The corporation shall have the right to impose, as conditions to any indemnification provided by the corporation, such reasonable requirements and conditions as may appear appropriate to the board of directors or shareholders in each specific case and circumstance, including, but not limited to, any one or more of the following: (a) that any counsel representing the Indemnified Party in connection with the defense or settlement of any Action shall be counsel mutually agreeable to the Indemnified Party and to the corporation; (b) that the corporation shall have the right, at the corporation's option, to assume and control the defense or settlement of any claim or proceeding made, initiated or threatened against the Indemnified Party; and (c) that the corporation shall be subrogated, to the extent of any payments made by way of indemnification, to all of the Indemnified Party's right of recovery and that the Indemnified Party shall execute all writings and do everything necessary to assure such rights of subrogation to the corporation.

## ARTICLE VII

### Miscellaneous

Section 1. Waivers of Notice. Whenever notice is required by law, the articles of incorporation or these bylaws, a waiver of such notice in writing signed by the director, shareholder, or other person entitled to said notice, whether before or after the time stated in such waiver or, subject to Section 6 of Article III, such person's appearance at such meeting in person or (in the case of a shareholder's meeting) by proxy, shall be equivalent to such notice.

Section 2. Voting of Securities by the Corporation. Unless otherwise provided by resolution of the board of directors, the president shall, on behalf of the corporation, attend in person or by substitute appointed by the president, or shall execute written instruments appointing a proxy or proxies, all meetings of the shareholders of any other corporation, association or other entity in which the corporation holds any stock or other securities and may execute written waivers of notice with respect to any such meetings. At all such meetings and otherwise, the president, in person or by substitute or proxy as aforesaid, may vote the stock or other securities so held by the corporation and may execute written consents or any other instruments with respect to such stock or securities and may exercise any and all rights and powers incident to the ownership of said stock or securities; subject, however, to the instructions, if any, of the board of directors.

Section 3. Books and Records. The corporation shall keep correct and complete books and records of account, shall keep minutes of the proceedings of the meetings of the corporation's shareholders and board of directors and shall keep all other records required by law. The corporation shall also keep at the corporation's registered office or principal place of business or at the office of the corporation's transfer agent or registrar a record of the corporation's shareholders, giving the name and addresses of all shareholders and the number of shares held by each. Any person who is a shareholder of record, on written demand stating the purpose of such examination, shall have the right to examine and make abstracts from, in person or by agent or attorney, at any reasonable time and for a purpose reasonably related to such person's interests as a shareholder, the corporation's records to the extent required by the laws of Utah. On the written request of any shareholder of the corporation, the corporation shall mail to such shareholder the corporation's most recent annual or quarterly financial statements showing in reasonable detail the corporation's assets and liabilities and the results of the corporation's operations.

Section 4. Instruments. The board of directors may authorize any officer, agent or agents to enter into any contract or execute and deliver any instrument in the name of, and on behalf of, the corporation, and such authority may be general or confined to specific instances.

Section 5. Amendments. Subject to repeal or change by action of the shareholders, the power to alter, amend or repeal these bylaws and adopt new bylaws shall be vested in the board of directors.

Section 6. Interpretation. These bylaws and each provision of these bylaws are subject to applicable statutory law and to the articles of incorporation.

Section 7. Fiscal Year. The fiscal year of the corporation shall be determined by the board of directors, or authorized committee, of the corporation,

#### **SECRETARY'S CERTIFICATE**

I, the undersigned and duly elected Secretary of Franklin Covey Co., a Utah corporation (the "Corporation"), do hereby certify that the foregoing Bylaws were adopted as the Bylaws of the Corporation as of the 9<sup>th</sup> day of November, 2001, and that the same do now constitute the Bylaws of the Corporation.

IN WITNESS WHEREOF, I have hereunto subscribed my name as the Secretary of the corporation as of the 11<sup>th</sup> day of January, 2002.

/s/ Val J. Christensen  
Val J. Christensen, Secretary

**FIRST AMENDMENT**  
**TO**  
**THE AMENDED AND RESTATED BYLAWS**  
**OF**  
**FRANKLIN COVEY CO.**

The undersigned, in his capacity as Corporate Secretary of Franklin Covey Co., hereby certifies on behalf of the corporation that the following First Amendment to the Amended and Restated Bylaws of Franklin Covey Co. was submitted to and unanimously approved and adopted by the Board of Directors of the corporation pursuant to an Action by Unanimous Written Consent of the Board of Directors dated December 16, 2011:

1. Section 2 of Article III of the corporation's Amended and Restated Bylaws entitled "Number, Tenure and Qualifications" is here by amended and restated in its entirety as follows:

"Section 2. Number, Tenure, Qualifications and Election.

(a) The corporation shall have not less than three and not more than fifteen directors, unless the number of voting shareholders is less than three, in which case the minimum number of directors may be the same as the number of voting shareholders. The number of directors to constitute the whole Board of Directors shall be such numbers as shall be fixed from time to time exclusively by resolutions adopted by a majority of the entire Board of Directors. Directors need not be residents of Utah or shareholders of the corporation. The directors may elect from their number a director to serve as Chairman of the Board of Directors, for such term and with such authority as may be granted by the Board of Directors.

(b) At each annual meeting of the shareholders, the directors shall be elected to serve until the next annual meeting of the shareholders and until their successors shall have been elected and qualified or until such director's earlier death, resignation or removal. When a vacancy on the Board of Directors is filled, the director chosen to fill that vacancy shall complete the term of the director he or she succeeds. Notwithstanding the foregoing, each director shall hold office until his or her successor shall have been elected and qualified or until such director's earlier death, resignation or removal. No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of such director's term of office. When the number of directors is changed, each director then serving as such shall nevertheless continue as a director until the expiration of his or her current term.

(c) At each election of directors, unless otherwise provided in the Articles of Incorporation or the Utah Revised Business Corporation Act, every shareholder entitled to vote at the election has the right to cast, in person or by proxy, all of the votes to which the shareholder's shares are entitled for as many persons as there are directors to be elected and for whose election the shareholder has the right to vote. Directors are to be elected by a plurality of the votes cast by the shares entitled to vote in the election, at a meeting of shareholders at which a quorum is present. However, any nominee for director in an uncontested election who receives a greater number of votes "withheld" from or "against," as applicable, his or her election than votes "for" his or her election (a "Majority Withheld Vote") shall immediately offer to tender his or her resignation following certification of such shareholder vote. For the avoidance of doubt, "broker non-votes" and "abstentions" will not be counted as votes either "withheld," "against" or "for" a director nominee's election. The Corporate Governance and Nominating Committee shall promptly consider the director's resignation offer and make a recommendation to the Board of Directors on whether to accept or reject the offer taking into account such factors as the Corporate Governance and Nominating Committee may in its discretion determine appropriate. If a majority of the directors serving on the Corporate Governance and Nominating Committee received a Majority Withheld Vote at the same election, then the independent directors who did not receive a Majority Withheld Vote shall comprise a committee to consider, in the same manner and with the same discretion granted to the Corporate Governance and Nominating Committee as set forth above, any resignation offers and recommend to the Board of Directors whether to accept or reject them. The Board of Directors shall act on the recommendation of the Corporate Governance and Nominating Committee (or substitute committee of independent directors if applicable) and publicly disclose its decision within 90 days following certification of the shareholder vote. The Board of Directors may take into account such factors as the Board of Directors may in its discretion deem appropriate in deciding whether to accept a director's resignation. For the purposes of this paragraph, an "uncontested election" shall mean that, on the record date for the meeting at which directors are to be elected, the number of nominees does not exceed the number of directors to be elected. Shareholders do not have a right to cumulate their votes for the election of directors."

2. All other provisions of the corporation's Amended and Restated Bylaws shall remain in full force and effect.

Date: December 16, 2011

/s/ Stephen D. Young  
Stephen D. Young, Corporate Secretary

## SECTION 302 CERTIFICATION

I, Robert A. Whitman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Franklin Covey Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 5, 2012

/s/ Robert A. Whitman  
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Robert A. Whitman  
Chief Executive Officer



## SECTION 302 CERTIFICATION

I, Stephen D. Young, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Franklin Covey Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 5, 2012

/s/ Stephen D. Young

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Stephen D. Young  
Chief Financial Officer

**CERTIFICATION**

In connection with the quarterly report of Franklin Covey Co. (the "Company") on Form 10-Q for the quarter period ended November 26, 2011, as filed with the Securities and Exchange Commission (the "Report"), we, Robert A. Whitman, President and Chief Executive Officer of the Company, and Stephen D. Young, Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of our knowledge:

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

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

/s/ Robert A. Whitman  
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Robert A. Whitman  
Chief Executive Officer  
Date: January 5, 2012

/s/ Stephen D. Young  
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Stephen D. Young  
Chief Financial Officer  
Date: January 5, 2012