

FRANKLIN COVEY CO  
Form 10-K/A  
January 29, 2009

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

Form 10-K/A  
(Amendment No. 1)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE  
FISCAL YEAR ENDED AUGUST 31, 2008.

OR

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

Franklin Covey Co.

(Exact name of registrant as specified in its charter)

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

2200 West Parkway Boulevard

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

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

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

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

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

Series A Preferred Stock, no par value  
Title of Class

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

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

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

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

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

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

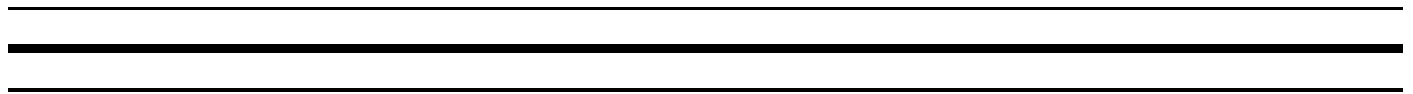
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of February 29, 2008, the aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant was approximately \$124.1 million, which was based upon the closing price of \$7.72 per share as reported by the New York Stock Exchange.

As of November 3, 2008, the Registrant had 16,879,498 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the Registrant's Definitive Proxy Statement for the Annual Meeting of Shareholders, which is scheduled to be held on January 16, 2009, are incorporated by reference in Part III of this Form 10-K.



### EXPLANATORY NOTE

In the Annual Report of Franklin Covey Co. on Form 10-K for the fiscal year ended August 31, 2008 (the Initial Report), management provided a report that concluded that our internal control over financial reporting (as defined by Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) and disclosure controls and procedures were effective as of August 31, 2008. We subsequently have determined that our controls at our Japan subsidiary: i) to ensure the approval and appropriate accounting treatment of non-standard shipping terms on product sales and ii) over the calculation of inventory reserves were insufficient to prevent misstatements that could be material. Accordingly, we have concluded that control deficiencies at our Japan subsidiary represented material weaknesses in our internal control over financial reporting at our Japan subsidiary at August 31, 2008.

These material weaknesses lead to errors in our historical financial statements that were discovered in the first quarter of fiscal 2009. We assessed the materiality of the errors using the guidance found in Staff Accounting Bulletin (SAB) No. 108 and determined that these errors were immaterial to previously reported financial statements included in our Annual Report on Form 10-K. Therefore, these immaterial errors will be corrected through the fiscal 2009 quarterly filings on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended August 31, 2009.

We are filing this Amendment No. 1 on Form 10-K/A (Amendment No. 1) for the fiscal year ended August 31, 2008 to:

- Restate Management's Report on Internal Control Over Financial Reporting, and amend management's assessment of the effectiveness of our disclosure controls and procedures; and
- File a restated Report of Independent Registered Public Accounting Firm related to internal control over financial reporting.

Our consolidated financial statements and the notes thereto, and the opinion of our Independent Registered Public Accounting Firm on the consolidated financial statements in Item 8 of this Amendment No. 1 are unchanged from the Initial Report, and no other information contained in the Initial Report is amended or updated by this Amendment No. 1.

Pursuant to Rule 12b-15 under the Exchange Act, Item 8 Financial Statements and Supplementary Data, and Item 9A, Controls and Procedures, of Part II of the Initial Report are hereby deleted in their entirety and are replaced with the Item 8 and Item 9A as included herein. Item 15 of Part IV of the Initial Report is also hereby deleted in its entirety and replaced with the Item 15 included herein.

The information contained in this Amendment No. 1 does not reflect events occurring after the filing of the Initial Report and does not modify or update the disclosures therein, except as specifically identified above. Significant developments with respect to those disclosures, as well as other changes in our business, have occurred and are described in filings we have made with the Securities and Exchange Commission after filing the Initial Report.

Part II

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
Franklin Covey Co.:

We have audited Franklin Covey Co.'s internal control over financial reporting as of August 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Franklin Covey Co.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting included in Item 9A(b). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Material weaknesses related to product sales and inventory reserves have been identified and included in management's restated assessment. We also have audited, in accordance with the standards of the Public Company Accounting



Oversight Board (United States), the consolidated balance sheets of Franklin Covey Co. and subsidiaries as of August 31, 2008 and 2007, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the years in the three year period ended August 31, 2008. These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2008 consolidated financial statements, and this report does not affect our opinion dated November 14, 2008, which expressed an unqualified opinion on those consolidated financial statements.

The assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting has been restated by FranklinCovey Co. management to disclose the aforementioned material weaknesses.

In our opinion, because of the effect of the aforementioned material weakness on the achievement of the objectives of the control criteria, Franklin Covey Co. has not maintained effective internal control over financial reporting as of August 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ KPMG LLP

Salt Lake City, Utah

November 14, 2008, except as to the restatement of the assessment of effectiveness of internal control over financial reporting for the material weaknesses related to product sales and inventory reserves, which is as of January 28, 2009

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
Franklin Covey Co.:

We have audited the accompanying consolidated balance sheets of Franklin Covey Co. and subsidiaries as of August 31, 2008 and 2007, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended August 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Franklin Covey Co. and subsidiaries as of August 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended August 31, 2008, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Franklin Covey Co.'s internal control over financial reporting as of August 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated November 14, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Salt Lake City, Utah

November 14, 2008



FRANKLIN COVEY CO.  
CONSOLIDATED BALANCE SHEETS

AUGUST 31,	2008	2007
In thousands, except per share data		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 15,904	\$ 6,126
Accounts receivable, less allowance for doubtful accounts of \$1,066 and \$821	28,019	27,239
Inventories	8,742	24,033
Deferred income taxes	2,472	3,635
Receivable from equity method investee	7,672	-
Prepaid expenses and other assets	5,102	9,070
Total current assets	67,911	70,103
Property and equipment, net	26,928	36,063
Intangible assets, net	72,320	75,923
Other long-term assets	11,768	14,542
	\$ 178,927	\$ 196,631
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt and financing obligation	\$ 670	\$ 629
Line of credit	-	15,999
Accounts payable	8,713	12,190
Income taxes payable	1,057	2,244
Tender offer obligation	28,222	-
Accrued liabilities	23,419	30,101
Total current liabilities	62,081	61,163
Long-term debt and financing obligation, less current portion	32,291	32,965
Other liabilities	1,229	1,019
Deferred income tax liabilities	4,572	565
Total liabilities	100,173	95,712
Commitments and contingencies (Notes 1, 8, 9, and 12)		
Shareholders' equity:		
Common stock, \$.05 par value; 40,000 shares authorized, 27,056 shares issued	1,353	1,353
Additional paid-in capital	184,313	185,890
Common stock warrants	7,597	7,602
Retained earnings	25,337	19,489
Accumulated other comprehensive income	1,058	970
Treasury stock at cost, 10,203 shares and 7,296 shares	(140,904)	(114,385)
Total shareholders' equity	78,754	100,919
	\$ 178,927	\$ 196,631

See accompanying notes to consolidated financial statements.

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## FRANKLIN COVEY CO.

## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

YEAR ENDED AUGUST 31,	2008	2007	2006
In thousands, except per share amounts			
Net sales:			
Training and consulting services	\$ 138,112	\$ 137,708	\$ 122,418
Products	121,980	146,417	156,205
	260,092	284,125	278,623
Cost of sales:			
Training and consulting services	44,738	43,132	40,722
Products	53,565	65,915	69,940
	98,303	109,047	110,662
Gross profit	161,789	175,078	167,961
Selling, general, and administrative	141,318	149,220	144,747
Gain on sale of consumer solutions business unit	(9,131)	-	-
Gain on sale of manufacturing facility	-	(1,227)	-
Restructuring costs	2,064	-	-
Impairment of assets	1,483	-	-
Depreciation	5,692	5,394	5,355
Amortization	3,603	3,607	3,813
Income from operations	16,760	18,084	14,046
Interest income	157	717	1,334
Interest expense	(3,083)	(3,136)	(2,622)
Recovery from legal settlement	-	-	873
Income before income taxes	13,834	15,665	13,631
Income tax benefit (provision)	(7,986)	(8,036)	14,942
Net income	5,848	7,629	28,573
Preferred stock dividends	-	(2,215)	(4,385)
Net income available to common shareholders	\$ 5,848	\$ 5,414	\$ 24,188
Net income available to common shareholders per share:			
Basic	\$ .30	\$ .28	\$ 1.20
Diluted	\$ .29	\$ .27	\$ 1.18
Weighted average number of common shares:			
Basic	19,577	19,593	20,134
Diluted	19,922	19,888	20,516
COMPREHENSIVE INCOME			
Net income	\$ 5,848	\$ 7,629	\$ 28,573
Foreign currency translation adjustments	88	458	97

Comprehensive income	\$	5,936	\$	8,087	\$	28,670
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See accompanying notes to consolidated financial statements.

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FRANKLIN COVEY CO.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED AUGUST 31,	2008	2007	2006
In thousands			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 5,848	\$ 7,629	\$ 28,573
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9,533	10,030	10,289
Gain on sale of consumer solutions business unit assets	(9,131)	-	-
Deferred income taxes	4,152	5,274	(15,435)
Share-based compensation cost (benefit)	(259)	1,394	843
Loss (gain) on disposals of assets	460	(1,247)	-
Restructuring charges	2,064	-	-
Impairment of assets	1,483	-	-
Changes in assets and liabilities:			
Increase in accounts receivable, net	(7,204)	(3,574)	(1,919)
Decrease (increase) in inventories	2,853	(2,427)	(845)
Increase in receivable from equity method investee	(7,672)	-	-
Decrease in prepaid expenses and other assets	7,109	514	1,458
Decrease in accounts payable and accrued liabilities	(1,512)	(4,388)	(3,697)
Increase (decrease) in income taxes payable	255	304	(2,081)
Increase (decrease) in other long-term liabilities	(151)	(151)	(177)
Net cash provided by operating activities	7,828	13,358	17,009
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from the sale of consumer solutions business unit assets, net	28,241	-	-
Purchases of property and equipment	(4,164)	(9,138)	(4,350)
Capitalized curriculum development costs	(4,042)	(5,088)	(4,010)
Investment in equity method investee	(2,755)	-	-
Proceeds from disposal of consolidated subsidiaries	1,180	150	-
Proceeds from sales of property and equipment, net	60	2,596	93
Net cash provided by (used for) investing activities	18,520	(11,480)	(8,267)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from line of credit borrowing	69,708	50,951	-
Payments on line of credit borrowings	(85,707)	(34,952)	-
Redemptions of Series A preferred stock	-	(37,345)	(20,000)
Change in restricted cash	-	-	699
Principal payments on long-term debt and financing obligation	(622)	(605)	(1,111)
Purchases of common stock for treasury	-	(2,625)	(5,167)
Proceeds from sales of common stock from treasury	462	388	427
Proceeds from management stock loan payments	-	27	134
Payment of preferred stock dividends	-	(2,215)	(4,885)
Net cash used for financing activities	(16,159)	(26,376)	(29,903)

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Effect of foreign currency exchange rates on cash and cash equivalents	(411)	37	58
Net increase (decrease) in cash and cash equivalents	9,778	(24,461)	(21,103)
Cash and cash equivalents at beginning of the year	6,126	30,587	51,690
Cash and cash equivalents at end of the year	\$ 15,904	\$ 6,126	\$ 30,587

Supplemental disclosure of cash flow information:

Cash paid for income taxes	\$ 3,549	\$ 2,370	\$ 2,615
Cash paid for interest	3,146	2,973	2,662

Non-cash investing and financing activities:

Acquisition of treasury stock from tender offer through liabilities	\$ 28,222	\$ -	\$ -
Accrued preferred stock dividends	-	-	934
Promissory notes received from sales of consolidated subsidiaries	-	1,513	-
Purchases of property and equipment financed by accounts payable	314	895	-

See accompanying notes to consolidated financial statements.

FRANKLIN COVEY CO.  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Series A Preferred Stock Shares	Series A Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Common Stock Warrants	Retained Earnings (Accumulated Deficit)	Deferred Compensation	Accumulated Other Comprehensive Income	Treasury Stock Shares	Treasury Stock Amount
In thousands											
Balance at August 31, 2005	2,294	\$ 57,345	27,056	\$ 1,353	\$ 190,760	\$ 7,611	\$ (14,498)	\$ (1,055)	\$ 556	(6,465)	\$ (109,200)
Preferred stock dividends							(4,385)				
Preferred stock redemptions	(800)	(20,000)									
Issuance of common stock from treasury						(334)				69	70
Purchase of treasury shares										(690)	(5,100)
Unvested share award						(458)				27	400
Share-based compensation						862					
Reclassification of deferred compensation upon adoption of SFAS 123R						(1,055)		1,055			
Receipt of common stock as consideration for payment on management common stock loans						301				(24)	(100)
Cumulative translation adjustments									97		
Net income							28,573				
Balance at August 31, 2006	1,494	\$ 37,345	27,056	\$ 1,353	\$ 185,691	\$ 7,611	\$ 14,075	\$ -	\$ 653	(7,083)	\$ (113,300)
Preferred stock dividends							(2,215)				
Preferred stock redemptions	(1,494)	(37,345)				(708)				100	1,000

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Issuance of common stock from treasury											
Purchase of treasury shares									(345)	(2,600)	
Unvested share award				(501)					32	500	
Share-based compensation				1,394							
Payments on management common stock loans				27							
Cumulative translation adjustments									458		
Common stock warrant activity				(13)	(9)						
Sale of Brazil subsidiary									(141)		
Net income							7,629				
Balance at August 31, 2007	- \$	-	27,056	\$ 1,353	\$ 185,890	\$ 7,602	\$ 19,489	\$	- \$ 970	(7,296)	\$(114,300)
Issuance of common stock from treasury										96	1,200
Purchase of treasury shares										(12)	(100)
Treasury shares acquired through tender offer										(3,027)	(28,200)
Unvested share award				(572)						36	500
Share-based compensation				(259)							
Cumulative translation adjustments										88	
Common stock warrant activity							(5)				
Net income							5,848				
Balance at August 31, 2008	- \$	-	27,056	\$ 1,353	\$ 184,313	\$ 7,597	\$ 25,337	\$	- \$ 1,058	(10,203)	\$(140,900)

See accompanying notes to consolidated financial statements.





FRANKLIN COVEY CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Franklin Covey Co. (hereafter referred to as us, we, our, or the Company) believes that great organizations consist of great people who form great teams that produce great results. To enable organizations and individuals to achieve great results, we provide integrated consulting, training, and performance solutions focused on leadership, strategy execution, productivity, sales force effectiveness, effective communication, and other areas. Our services and products have historically been available through professional consulting services, public workshops, retail stores, catalogs, and the Internet at [www.franklincovey.com](http://www.franklincovey.com) and our best-known offerings in the marketplace have included the FranklinCovey Planner™, and a suite of individual-effectiveness and leadership-development training products based on the best-selling book, *The 7 Habits of Highly Effective People*.

During the fourth quarter of fiscal 2008, we completed the sale of substantially all of the assets of our Consumer Solutions Business Unit (CSBU) to a newly formed entity, Franklin Covey Products, LLC (Note 2). The CSBU was primarily responsible for the sale of our products, including the FranklinCovey Planner™, to consumers through retail stores, catalogs, and our Internet site. Following the sale of the CSBU, our business primarily consists of training, consulting, and assessment services and products to help organizations achieve superior results by focusing on and executing on top priorities, building the capability of knowledge workers, and aligning business processes. Our training, consulting, and assessment offerings include services based upon the popular workshop *The 7 Habits of Highly Effective People®*; *Leadership: Great Leaders—Great Teams—Great Results™*; *The 4 Disciplines of Execution™*; *FOCUS: Achieving Your Highest Priorities*; *The 8 Habits of a Successful Marriage*; *Building Business Acumen*; *Championing Diversity*; *Leading at the Speed of Trust*; *Writing Advantage*, and *Presentation Advantage*. During fiscal 2008, we introduced a new suite of services designed to help our clients improve their sales through increased customer loyalty. We also consistently seek to create, develop, and introduce new services and products that will help our clients achieve greatness.

### Fiscal Year

The Company utilizes a modified 52/53-week fiscal year that ends on August 31 of each year. Corresponding quarterly periods generally consist of 13-week periods that ended on December 1, 2007, March 1, 2008, and May 31, 2008 during fiscal 2008. Unless otherwise noted, references to fiscal years apply to the 12 months ended August 31 of the specified year.

### Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and our subsidiaries, which consisted of Franklin Covey Printing, Franklin Development Corp., and our wholly-owned operations in Canada, Japan, the United Kingdom, Australia, and Mexico (product sales) during fiscal 2008. Intercompany balances and transactions are eliminated in consolidation.

### Pervasiveness of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us 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.

## Reclassifications

Certain reclassifications have been made to prior period financial statements to conform to the current period presentation. These reclassifications included a change in the classification of building depreciation costs related to subleased office space from product cost of sales to depreciation expense. The depreciation expense reclassified from product cost of sales totaled \$0.7 million and \$0.6 million for the fiscal years ended August 31, 2007 and 2006, respectively.

## Cash and Cash Equivalents

We consider highly liquid investments with insignificant interest rate risk and original maturities to the Company of three months or less to be cash equivalents. We did not hold a significant amount of investments that would be considered cash equivalent instruments at August 31, 2008 or 2007.

As of August 31, 2008, we had demand deposits at various banks in excess of the \$250,000 limit for insurance by the Federal Deposit Insurance Corporation (FDIC). Subsequent to August 31, 2008 we utilized substantially all of our available cash to pay the \$28.2 million tender offer obligation.

## Trade Accounts Receivable

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 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. We do not have any off-balance sheet credit exposure related to our customers.

## Inventories

Inventories are stated at the lower of cost or market, cost being determined using the first-in, first-out method. Elements of cost in inventories generally include raw materials, direct labor, and overhead. Cash flows from the sales of inventory are included in cash flows provided by operating activities in our consolidated cash flows statements. Following the sale of our Consumer Solutions Business Unit in the fourth quarter of fiscal 2008, our inventories are comprised primarily of training materials, books, and related accessories and were comprised of the following (in thousands):

AUGUST 31,	2008	2007
Finished goods	\$ 8,329	\$ 20,268
Work in process	-	743
Raw materials	413	3,022
	\$ 8,742	\$ 24,033

Provision is made to reduce excess and obsolete inventories to their estimated net realizable value. At August 31, 2008 and 2007, our reserves for excess and obsolete inventories totaled \$1.1 million and \$4.3 million. In assessing the realization of inventories, we make judgments regarding future demand requirements and compare these estimates with current and committed inventory levels. Inventory requirements may change based on projected customer demand, training curriculum life-cycle changes, longer- or shorter-than-expected usage periods, and other factors that

could affect the valuation of our inventories.

## Property and Equipment

Property and equipment are recorded at cost. Depreciation expense, which includes depreciation on our corporate campus that is accounted for as a financing obligation (Note 3) and the amortization of assets recorded under capital lease obligations, is calculated using the straight-line method over the expected useful life of the asset. The Company generally uses the following depreciable lives for our major classifications of property and equipment:

Description	Useful Lives
Buildings	15-39 years
Machinery and equipment	3-7 years
Computer hardware and software	3 years
Furniture, fixtures, and leasehold improvements	5-8 years

Leasehold improvements are amortized over the lesser of the useful economic life of the asset or the contracted lease period. We expense costs for repairs and maintenance as incurred. Gains and losses resulting from the sale of property and equipment are recorded in current operations.

## Indefinite-Lived Intangible Assets

Intangible assets that are deemed to have an indefinite life 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 (Note 4) has been deemed to have an indefinite life. This intangible asset is assigned to the Organizational Solutions Business Unit and is tested for impairment using the present value of estimated royalties on trade name related revenues, which consist primarily of training seminars and work sessions, international licensee sales, and related products. No impairment charge to the Covey trade name was recorded during the fiscal years ended August 31, 2008, 2007, or 2006.

## Capitalized Curriculum Development Costs and Impairment of Assets

During the normal course of business, we develop training courses and related materials that we sell to our customers. Capitalized curriculum development costs include certain expenditures to develop course materials such as video segments, course manuals, and other related materials. Generally, curriculum costs are capitalized when a new offering is developed or when there is a major revision to an existing course that requires a significant re-write of the course materials or curriculum. Costs incurred to maintain existing offerings are expensed when incurred. In addition, development costs incurred in the research and development of new curriculum and software products to be sold, leased, or otherwise marketed are expensed as incurred until technological feasibility has been established in accordance with Statement of Financial Accounting Standards (SFAS) No. 86, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed, and Emerging Issues Task Force (EITF) Issue 96-6, Accounting for the Film and Software Costs Associated with Developing Entertainment and Educational Software Products.

During fiscal 2008, we capitalized certain costs incurred for the development of a new customer loyalty offering, leadership offerings, including The Speed of Trust and The Leader in Me, as well as other courses. Capitalized development costs are generally amortized over a five-year life, which is based on numerous factors, including expected cycles of major changes to curriculum. Capitalized curriculum development costs are reported as a component of other long-term assets in our consolidated balance sheets and totaled \$6.8 million and \$8.6 million at August 31, 2008 and 2007. Amortization of capitalized curriculum development costs is reported as a component of cost of sales.

In fiscal 2008 we analyzed the expected future revenues and corresponding cash flows expected to be generated from our The 7 Habits of Highly Effective People interactive program and concluded that the expected future revenues, less direct selling and maintenance costs, were insufficient to cover the

carrying value of the corresponding capitalized development costs. Accordingly, we recorded a \$1.5 million impairment charge in the fourth quarter of fiscal 2008 to write the carrying value of this program down to its net realizable value.

#### Restricted Investments

The Company's restricted investments consist of insurance contracts and investments in mutual funds that are held in a "rabbi trust" and are restricted for payment to the participants of our deferred compensation plan (Note 16). We account for our restricted investments in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. As required by SFAS No. 115, the Company determines the proper classification of its investments at the time of purchase and reassesses such designations at each balance sheet date. For the periods presented in this report, our restricted investments were classified as trading securities and consisted of insurance contracts and mutual funds. The fair value of these restricted investments totaled \$0.5 million and \$0.7 million at August 31, 2008 and 2007, and were recorded as components of other long-term assets in the accompanying consolidated balance sheets.

In accordance with SFAS No. 115, our unrealized losses on restricted investments, which were immaterial during fiscal years 2008, 2007, and 2006, were recognized in the accompanying consolidated income statements as a component of selling, general, and administrative expense.

#### 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 the 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 recognize an impairment loss equal to the difference between the carrying values of the assets and their estimated fair values. 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. The evaluation of long-lived assets requires us to use estimates of future cash flows. If forecasts and assumptions used to support the realizability 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.

#### Accrued Liabilities

Significant components of our accrued liabilities were as follows (in thousands):

AUGUST 31,	2008	2007
Unearned revenue	\$ 4,564	\$ 4,709
Outsourcing contract costs payable	4,446	4,357
Accrued compensation	4,152	6,807
Customer credits	2,191	2,570
Restructuring costs	2,055	-
	6,011	11,658



Other accrued  
liabilities

\$ 23,419 \$ 30,101

#### Restructuring Costs

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

plan, of which \$2.1 million was recorded as a component of accrued liabilities at August 31, 2008. The composition and utilization of the accrued restructuring charge was as follows at August 31, 2008 (in thousands):

Description	Accrued Restructuring Costs
Balance at August 31, 2007	\$ -
Restructuring charges	2,064
Amounts utilized – employee severance	(9)
Balance at August 31, 2008	\$ 2,055

We intend to complete the majority of the restructuring plan activities during the year ending August 31, 2009.

#### Foreign Currency Translation and Transactions

The functional currencies of the Company's foreign operations are the reported local currencies. Translation adjustments result from translating our foreign subsidiaries' financial statements into United States dollars. The balance sheet accounts of our foreign subsidiaries are translated into United States dollars using the exchange rate in effect at the balance sheet date. Revenues and expenses are translated using average exchange rates for each month during the fiscal year. The resulting translation gains or losses were recorded as a component of accumulated other comprehensive income in shareholders' equity. Foreign currency transaction losses totaled \$0.1 million during each of the fiscal years ended August 31, 2008, 2007, and 2006, and were reported as a component of our selling, general, and administrative expenses.

#### Derivative Instruments

Derivative instruments are accounted for in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities as modified by SFAS No. 138, Accounting for Certain Derivative and Certain Hedging Activities, and SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. During the normal course of business, we are exposed to risks associated with foreign currency exchange rate and interest rate fluctuations. Foreign currency exchange rate exposures result from the Company's operating results, assets, and liabilities that are denominated in currencies other than the United States dollar. In order to limit our exposure to these elements, we have made limited use of derivative instruments. Each derivative instrument that is designated as a hedge instrument is recorded on the balance sheet at its fair value. Changes in the fair value of derivative instruments that qualify for hedge accounting are recorded in accumulated other comprehensive income, which is a component of shareholders' equity. Changes in the fair value of derivative instruments that are not designated as hedge instruments are immediately recognized as a component of selling, general, and administrative expense in our consolidated income statements. At August 31, 2008 we were not party to any financial instruments that qualified for hedge accounting.

#### Sales Taxes

We collect sales tax on qualifying transactions with customers based upon applicable sales tax rates in various jurisdictions. The Company accounts for its sales taxes collected using the net method as defined by EITF Issue No. 06-03, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation) and accordingly, we do not include sales taxes in net sales reported in our consolidated financial statements.

#### Revenue Recognition

We recognize revenue in accordance with SEC Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements, as amended by SAB No. 104, Revenue Recognition. Accordingly,

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) collectibility 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 or by completion of the sales transaction in a retail store.

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 EITF Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables. When fair value exists for all contracted elements, the overall contract consideration is allocated among the separate units of accounting based upon their relative fair values. Revenue for these units is recognized in accordance with our general revenue policies once it has been determined that the delivered items have standalone value to the customer. If fair value does not exist for all contracted elements, revenue for the delivered items is recognized using the residual method, which generally means that revenue recognition is postponed until the point is reached when the delivered items have standalone value and fair value exists for the undelivered items. Under the residual method, the amount of revenue considered for recognition under our general revenue policies is the total contract amount, less the aggregate fair value of the undelivered items. Fair value of the undelivered items is based upon the normal pricing practices for our existing training programs, consulting services, and other products, which are generally the prices of the items when sold separately.

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. Licensee royalty revenues are included as a component of training sales and totaled \$10.1 million, \$7.6 million, and \$6.1 million, for the fiscal years ended August 31, 2008, 2007, and 2006.

Revenue is recognized on software sales in accordance with Statement of Position (SOP) 97-2, Software Revenue Recognition as amended by SOP 98-09. Statement 97-2, as amended, generally requires revenue earned on software arrangements involving multiple elements such as software products and support to be allocated to each element based on the relative fair value of the elements based on vendor specific objective evidence (VSOE). Nearly all of the Company's software sales consist of ready to use "off-the-shelf" software products that have multiple elements, including a license and post contract customer support (PCS). Currently we do not have VSOE for either the license or support elements of our software sales. Accordingly, revenue is deferred until the only undelivered element is PCS and the total arrangement fee is recognized over the support period. During fiscal 2008, 2007, and 2006, we had software sales totaling \$2.5 million, \$3.2 million, and \$3.3 million, which are included as a component of product sales in our consolidated income statements.

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

#### Share-Based Compensation

We account for our share-based compensation costs according to the provisions of SFAS No. 123 (Revised 2004) Share-Based Payment (SFAS No. 123R), which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. In general, SFAS No. 123R requires all share based-payments to employees and non-employees, including grants of stock options and the compensatory elements of employee stock purchase plans, to be recognized in the income statement based upon their fair values.

For more information on our share-based compensation plans, refer to Note 13.

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### Shipping and Handling Fees and Costs

All shipping and handling fees billed to customers are recorded as a component of net sales. All costs incurred related to the shipping and handling of products are recorded in cost of sales.

### Advertising Costs

Costs for newspaper, television, radio, and other advertising are expensed as incurred or recognized over the period of expected benefit for direct response and catalog advertising. Direct response advertising costs, which consist primarily of printing and mailing costs for catalogs and seminar mailers, are charged to expense over the period of projected benefit, which ranges from three to 12 months. Advertising costs included in selling, general, and administrative expenses totaled \$15.5 million, \$15.9 million, and \$16.0 million, for the fiscal years ended August 31, 2008, 2007, and 2006. Our direct response advertising costs reported in other current assets totaled \$0.5 million and \$2.2 million at August 31, 2008 and 2007.

### Research and Development Costs

We expense research and development costs as incurred. During the fiscal years ended August 31, 2008, 2007, and 2006, we expensed \$4.6 million, \$3.3 million, and \$2.3 million of research and development costs that were recorded as components of cost of sales and selling, general, and administrative expenses in our consolidated income statements.

### Income Taxes

Our income tax provision has been determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred income taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The income tax provision represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred income taxes result from differences between the financial and tax bases of our assets and liabilities and are adjusted for tax rates and tax laws when changes are enacted. A valuation allowance is provided against deferred income tax assets when it is more likely than not that all or some portion of the deferred income tax assets will not be realized. We adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109 (FIN 48), on September 1, 2007. Following the adoption of FIN 48, interest and penalties related to uncertain tax positions are recognized as components of income tax expense.

The Company provides for income taxes, net of applicable foreign tax credits, on temporary differences in our investment in foreign subsidiaries, which consist primarily of unrepatriated earnings.

### Comprehensive Income

Comprehensive income includes changes to equity accounts that were not the result of transactions with shareholders. Comprehensive income is comprised of net income or loss and other comprehensive income and loss items. Our comprehensive income and losses generally consist of changes in the cumulative foreign currency translation adjustment.

### Accounting Pronouncements Issued Not Yet Adopted

Fair Value Measures – In September 2006, the FASB issued SFAS No. 157, Fair Value Measures. This statement establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair-value measurements. Statement No. 157 only applies to fair-value measurements that are already required or permitted by other accounting standards except for measurements of share-based payments and measurements that are similar to, but not intended to be, fair value. This statement is effective for the specified fair value measures for financial statements

issued for fiscal years beginning after November 15, 2007, and will thus be effective for the Company in fiscal 2009. We have not yet completed our analysis of the impact of SFAS No. 157 on our financial statements.

**Fair Value Option for Financial Assets and Financial Liabilities** – In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an Amendment of FASB Statement No. 115*. Statement No.159 permits entities to choose to measure many financial instruments and certain other items at fair value. The provisions of SFAS No. 159 will become effective for the Company in fiscal 2009 and we have not yet completed our analysis of the impact of SFAS No. 159 on our financial statements.

**Business Combinations** – In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R) and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. These standards aim to improve, simplify, and converge internationally the accounting for business combinations and the reporting of noncontrolling interests in consolidated financial statements. The provisions of SFAS No. 141R and SFAS No. 160 are effective for our fiscal year beginning September 1, 2009. We do not currently anticipate that these statements will have a material impact upon our financial condition or results of operations.

**Derivatives Disclosures** – In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. Statement No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. The provisions of SFAS No. 161 are effective for our third quarter of fiscal 2009. The Company is currently evaluating the impact of the provisions of SFAS No. 161, but due to our limited use of derivative instruments we do not currently anticipate that the provisions of SFAS No. 161 will have a material impact on our financial statements.

## 2. SALE OF THE CONSUMER SOLUTIONS BUSINESS UNIT

During fiscal 2008, we joined with Peterson Partners to create a new company, Franklin Covey Products, LLC (Franklin Covey Products). This new company purchased substantially all of the assets of our Consumer Solutions Business Unit (CSBU) with the objective of expanding the worldwide sales of Franklin Covey products as governed by a comprehensive license agreement between us and Franklin Covey Products. The CSBU was primarily responsible for sales of our products to both domestic and international consumers through a variety of channels, including retail stores, a call center, and the Internet (Note 19). Franklin Covey Products, which is controlled by Peterson Partners, purchased the CSBU assets for \$32.0 million in cash plus a \$1.2 million adjustment for working capital delivered on the closing date of the sale, which was effective July 6, 2008. We also incurred \$3.7 million of direct costs related to the sale of the CSBU assets, a portion of which is reimbursable from Franklin Covey Products. At August 31, 2008, we have a \$3.5 million note receivable for these reimbursable transaction costs and excess working capital that is due in January 2009. The note receivable bears interest at Franklin Covey Products' effective borrowing rate, which was approximately 6.0 percent at August 31, 2008.

On the date of the sale closing, the Company invested approximately \$1.8 million to purchase a 19.5 percent voting interest in Franklin Covey Products, made a \$1.0 million priority capital contribution with a 10 percent return, and will have the opportunity to earn contingent license fees if Franklin Covey Products achieves specified performance objectives. We recognized a gain of \$9.1 million on the sale of the CSBU assets and according to guidance found in EITF Issue No. 01-2, *Interpretations of APB Opinion No. 29*, we deferred a portion of the gain equal to our investment in Franklin Covey Products. We will recognize the deferred gain over the life of the long-term assets acquired by Franklin Covey Products or when cash is received for payment of the priority contribution.





The carrying amounts of the assets and liabilities of the CSBU that were sold to Franklin Covey Products were as follows (in thousands):

Description	
Cash and cash equivalents	\$ 38
Accounts receivable, net	6,675
Inventories	12,665
Other current assets	2,291
Property and equipment, net	8,435
Other assets	158
Total assets sold	\$ 30,262
Accounts payable	\$ 3,589
Accrued liabilities	6,748
Total liabilities sold	\$ 10,337

Based upon the guidance found in SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, EITF Issue No. 03-13, Applying the Conditions in Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations, and SAB 103, Topic 5Z4, Disposal of Operation with Significant Interest Retained, we determined that the operations of CSBU should not be reported as discontinued operations because we will continue to have significant influence over the operations of Franklin Covey Products and may participate in future cash flows. As a result of this determination, we have not presented the financial results of the CSBU as discontinued operations in the accompanying consolidated financial statements and we do not anticipate discontinued operations presentation in future interim and annual reporting periods.

As a result of Franklin Covey Products' structure as a limited liability company with separate owner capital accounts and the guidance found in EITF Issue No. 03-16, Accounting for Investments in Limited Liability Companies and SOP 78-9, Accounting for Investments in Real Estate Ventures, we determined that the Company's investment in Franklin Covey Products is more than minor and that we are required to account for our investment in Franklin Covey Products using the equity method of accounting. We record our share of Franklin Covey Products' profit and loss based upon specified allocations as defined in the associated operating agreement. Our ownership interest may be diluted in future periods if ownership shares of Franklin Covey Products granted to certain members of its management vest.

The following unaudited summary financial information for Franklin Covey Products is presented as of and for the two months ending August 31, 2008 (in thousands):

Balance Sheet	
Total assets	\$ 45,588
Total liabilities	37,013
Income Statement	
Sales	13,149
Net loss	(1,437)

Following the sale of the CSBU assets, we do not have any obligation to fund the losses of Franklin Covey Products and therefore our portion of the net loss in fiscal 2008 was not recorded in our consolidated income statement. Under the terms of the agreements associated with the sale of the CSBU assets, we are entitled to receive reimbursement for certain operating costs, such as warehousing and distribution costs, which are billed to the Company by third party providers. At August 31, 2008 we had a \$7.7 million receivable from Franklin Covey Products, which consisted of \$3.5 million of reimbursable costs associated with the sale transaction as described above, and \$4.2 million of reimbursable operating costs.

### 3. PROPERTY AND EQUIPMENT

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

AUGUST 31,	2008	2007
Land and improvements	\$ 1,626	\$ 1,639
Buildings	34,573	34,536
Machinery and equipment	2,969	29,026
Computer hardware and software	20,010	45,623
Furniture, fixtures, and leasehold improvements	9,640	32,579
	68,818	143,403
Less accumulated depreciation	(41,890)	(107,340)
	\$ 26,928	\$ 36,063

In addition to the CSBU property and equipment that was sold to Franklin Covey Products during the fourth quarter of fiscal 2008, we disposed of certain computer hardware and software that was replaced or rendered obsolete during the year. Substantially all of this computer hardware and software was fully depreciated at the time of disposal. In addition, we also transferred ownership of fully depreciated warehouse equipment to a third party warehouse services provider (Note 9) as required by the outsourcing contract.

During fiscal 2007, we completed a project to reconfigure our printing operations to improve our printing services' efficiency, reduce operating costs, and improve our printing services' flexibility in order to increase external printing service sales. Our reconfiguration plan included moving our printing operations a short distance from its existing location to our corporate headquarters campus and the sale of the manufacturing facility and certain printing presses. We completed the sale of the manufacturing facility during the second quarter of fiscal 2007. The sale price was \$2.5 million and, after deducting customary closing costs, the net proceeds to the Company from the sale totaled \$2.3 million in cash. The carrying value of the manufacturing facility at the date of sale was \$1.1 million and accordingly, we recognized a \$1.2 million gain on the sale of the manufacturing facility. The manufacturing facility assets sold were primarily reported as a component of corporate assets for segment reporting purposes. Due to a lower-than-expected sale price on one of the printing presses to be sold, we recorded an impairment charge totaling \$0.3 million to reduce the carrying value of the printing press to its anticipated sale price. The impairment charge was included as a component of depreciation expense in our consolidated income statement for the fiscal year ended August 31, 2007.

In connection with the fiscal 2005 sale of our corporate headquarters facility, we entered into a 20-year master lease agreement with the purchaser, an unrelated private investment group. The master lease agreement contains six five-year renewal options, which will allow us to maintain our operations at our current location for up to 50 years. Although the corporate headquarters facility was formally sold and the Company has no legal ownership of the property, SFAS No. 98, Accounting for Leases, precluded us from recording the transaction as a sale since we have subleased more than a minor portion of the property. Pursuant to this accounting guidance, we have accounted for the

sale as a financing transaction, which required us to continue reporting the corporate headquarters facility as an asset and to depreciate the property over the life of the master lease agreement. We also recorded a financing obligation to the purchaser (Note 7) for the sale price. At August 31, 2008, the carrying value of the corporate headquarters facility was \$19.1 million.

Certain land and buildings are collateral for mortgage debt obligations (Note 7).

## 4. INTANGIBLE ASSETS

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

AUGUST 31, 2008	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets:			
License rights	\$ 27,000	\$ (9,292)	\$ 17,708
Curriculum	58,237	(29,896)	28,341
Customer lists	14,684	(11,413)	3,271
Trade names	377	(377)	-
	100,298	(50,978)	49,320
Indefinite-lived intangible asset:			
Covey trade name	23,000	-	23,000
	\$ 123,298	\$ (50,978)	\$ 72,320

AUGUST 31, 2007			
Definite-lived intangible assets:			
License rights	\$ 27,000	\$ (8,355)	\$ 18,645
Curriculum	58,230	(28,361)	29,869
Customer lists	18,124	(13,715)	4,409
Trade names	1,277	(1,277)	-
	104,631	(51,708)	52,923
Indefinite-lived intangible asset:			
Covey trade name	23,000	-	23,000
	\$ 127,631	\$ (51,708)	\$ 75,923

Our intangible assets are amortized on a straight-line basis over the estimated useful life of the asset. The range of remaining estimated useful lives and weighted-average amortization period over which we are amortizing the major categories of definite-lived intangible assets at August 31, 2008 were as follows:

Category of Intangible Asset	Range of Remaining Estimated Useful Lives	Weighted Average Amortization Period
License rights	18 years	30 years
Curriculum		26 years

	11 to 18	
	years	
Customer	3 years	14 years
lists		

Our aggregate amortization expense from definite-lived intangible assets totaled \$3.6 million, \$3.6 million, and \$3.8 million, for fiscal years 2008, 2007, and 2006. Amortization expense for our intangible assets over the next five years is expected to be as follows (in thousands):

YEAR	
ENDING	
AUGUST	
31,	
2009	\$ 3,601
2010	3,598
2011	3,456
2012	2,458
2013	2,449

#### 5. TENDER OFFER OBLIGATION

During the fourth quarter of fiscal 2008, we conducted a modified “Dutch Auction” tender offer to purchase up to \$28.0 million of shares of our common stock at a specified range of prices (Note 10).

The tender offer closed on August 27, 2008 as intended and we announced the preliminary results of the tender offer on August 28, 2008. The final results of the tender offer were announced on September 5, 2008 and we completed the payment process for the shares of common stock shortly thereafter. Based upon guidance found in SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, we believe that an obligation to purchase the tender offer shares had been created prior to August 31, 2008. As a result of this determination, at August 31, 2008 we recorded a \$28.2 million liability in current liabilities for the tender offer obligation, which includes \$0.2 million of customary transaction costs for broker fees, legal services, and printing services, etc. We recorded a corresponding increase to treasury stock for the shares acquired in the tender offer in our shareholders' equity section of our consolidated balance sheet.

## 6. CURRENT LINES OF CREDIT

During fiscal 2007, we entered into secured revolving line-of-credit agreements with JPMorgan Chase Bank N.A. and Zions First National Bank that provided a combined total of \$25.0 million of borrowing capacity to the Company. In connection with the sale of the CSBU assets (Note 2), during the fourth quarter of fiscal 2008, the credit agreements with these lenders were modified (the Modified Credit Agreement). The Modified Credit Agreement removed Zions First National Bank as a lender, but continues to provide a total of \$25.0 million of borrowing capacity until June 30, 2009, when the borrowing capacity will be reduced to \$15.0 million. In addition, the interest rate on the credit facility increased from LIBOR plus 1.10 percent to LIBOR plus 1.50 percent, effective on the date of the modification agreement (weighted average rate of 4.0 percent and 6.6 percent at August 31, 2008 and 2007, respectively). The Modified Credit Agreement expires on March 14, 2010 (no change) and we may draw on the credit facilities, repay, and draw again, on a revolving basis, up to the maximum loan amount of \$25.0 million so long as no event of default has occurred and is continuing. The Company may use the Credit Agreements for general corporate purposes as well as for other transactions, unless prohibited by the terms of the Modified Credit Agreement. The fiscal 2007 line of credit obligation was classified as a component of current liabilities primarily due to our intention to repay amounts outstanding before the agreement expires.

We accounted for the Modified Credit Agreement using the guidance found in EITF 96-19, Debtor's Accounting for a Modification or Exchange of Debt Instruments and EITF 98-14, Debtor's Accounting for Changes in Line-of-Credit or Revolving Debt Arrangements and expensed unamortized debt issuance costs in accordance with these pronouncements. The additional expense was recorded as a component of interest expense in the fourth quarter of fiscal 2008 and was immaterial to the Company's consolidated financial statements.

In addition to customary non-financial terms and conditions, the Modified Credit Agreement requires us to be in compliance with specified financial covenants, which did not change for the original credit agreements, including: (i) a funded debt to earnings ratio; (ii) a fixed charge coverage ratio; (iii) a limitation on annual capital expenditures; and (iv) a defined amount of minimum net worth. In the event of noncompliance with these financial covenants and other defined events of default, the lender is entitled to certain remedies, including acceleration of the repayment of amounts outstanding on the Modified Credit Agreement. The Modified Credit Agreement also contains customary representations and guarantees as well as provisions for repayment and liens. We believe that we were in compliance with the terms and covenants of the Modified Credit Agreement at August 31, 2008.

In connection with the original credit agreements, the Company entered into a promissory note, a security agreement, repayment guaranty agreements, and a pledge and security agreement. These agreements remain in place with the remaining lender and pledge substantially all of the Company's assets located in the United States and a certain foreign location to the lender in the Modified Credit Agreement.



In addition to the line of credit described above, we obtained a CDN \$500,000 (approximately \$471,000) revolving line of credit with a Canadian Bank through our wholly-owned Canadian subsidiary (the Canadian Line of Credit) during fiscal 2007. The Canadian Line of Credit bears interest at the Canadian

prime rate and is a revolving line of credit that may be repeatedly borrowed against and repaid during the life of the agreement. The Canadian Line of Credit may be used for general corporate purposes and requires our Canadian subsidiary to maintain a specified financial covenant for minimum debt service coverage or the payment of the loan may be accelerated. As of August 31, 2008 we had not yet drawn upon the Canadian Line of Credit.

7. LONG-TERM DEBT AND FINANCING OBLIGATION

Our long-term debt and financing obligation were comprised of the following (in thousands):

AUGUST 31,	2008	2007
Financing obligation on corporate campus, payable in monthly installments of \$254 for the first five years with two percent annual increases thereafter (imputed interest at 7.7%), through June 2025	\$ 32,283	\$ 32,807
Mortgage payable in monthly installments of \$9 CDN (\$9 USD at August 31, 2008), plus interest at the CDN prime rate (4.8% at August 31, 2008) through January 2015, secured by real estate	678	787
	32,961	33,594
Less current portion	(670)	(629)
Total long-term debt and financing obligation, less current portion	\$ 32,291	\$ 32,965

The mortgage loan on our Canadian facility requires the Company to maintain certain financial ratios at our wholly-owned Canadian operation.

Future principal maturities of our long-term debt and financing obligation were as follows at August 31, 2008 (in thousands):

YEAR ENDING AUGUST 31,	
2009	\$ 670
2010	726
2011	839
2012	963
2013	1,097
Thereafter	28,666
	\$ 32,961

In connection with the sale and leaseback of our corporate headquarters facility, located in Salt Lake City, Utah, we entered into a 20-year master lease agreement with the purchaser, an unrelated private investment group. The 20-year master lease agreement also contains six five-year renewal options that will allow us to maintain our operations at the

current location for up to 50 years. Although the corporate headquarters facility was sold and the Company has no legal ownership of the property, SFAS No. 98, Accounting for Leases, precluded us from recording the transaction as a sale since we have subleased a significant portion of the property that was sold. Accordingly, we accounted for the sale as a financing transaction, which required us to continue reporting the corporate headquarters facility as an asset (Note 3) and to record a financing obligation for the sale price. The future minimum payments under the financing obligation for the initial 20 year lease term are as follows (in thousands):

YEAR ENDING AUGUST 31,	
2009	\$ 3,045
2010	3,055
2011	3,116
2012	3,178
2013	3,242
Thereafter	43,537
Total future minimum financing obligation payments	59,173
Less interest	(28,202)
Present value of future minimum financing obligation payments	\$ 30,971

The difference between the carrying value of the financing obligation and the present value of the future minimum financing obligation payments represents the carrying value of the land sold in the financing transaction, which is not depreciated. At the conclusion of the master lease agreement, the remaining financing obligation and carrying value of the land will be written off of our financial statements.

## 8. OPERATING LEASES

### Lease Expense

In the normal course of business, we lease office space and warehouse and distribution facilities under non-cancelable operating lease agreements. We rent office space, primarily for international and domestic regional sales administration offices, in commercial office complexes that are conducive to sales and administrative operations. We also rent warehousing and distribution facilities that are designed to provide secure storage and efficient distribution of our products. These operating lease agreements generally contain renewal options that may be exercised at our discretion after the completion of the base rental term. In addition, many of the rental agreements provide for regular increases to the base rental rate at specified intervals, which usually occur on an annual basis. At August 31, 2008, we had operating leases that have remaining terms ranging from less than one year to approximately 8 years. Following the sale of our CSBU assets (Note 2), we no longer lease retail store space and Franklin Covey Products is contractually obligated to pay a portion of our minimum rental payments on certain warehouse and distribution facilities. The following table summarizes our future minimum lease payments under operating lease agreements and the lease amounts receivable from Franklin Covey Products at August 31, 2008 (in thousands):

YEAR ENDING	Required Minimum Lease Payments	Receivable from Franklin Covey Products	Net Required Minimum Lease Payments
AUGUST 31,			
2009	\$ 1,671	\$ (390)	\$ 1,281
2010	1,620	(404)	1,216
2011	1,608	(422)	1,186
2012	1,517	(475)	1,042
2013	1,178	(529)	649
Thereafter	3,427	(1,751)	1,676
	\$ 11,021	\$ (3,971)	\$ 7,050

We recognize lease expense on a straight-line basis over the life of the lease agreement. Contingent rent expense is recognized as it is incurred. Total rent expense recorded in selling, general, and administrative expense from operating lease agreements was \$8.7 million, \$10.8 million, and \$11.2 million for the years ended August 31, 2008, 2007, and 2006. Additionally, certain retail store leases contained terms that require additional, or contingent, rental payments based upon the realization of certain sales thresholds. Our contingent rental payments under these arrangements were insignificant during the fiscal years ended August 31, 2008, 2007, and 2006.

### Lease Income

We have subleased a significant portion of our corporate headquarters office space located in Salt Lake City, Utah to multiple, unrelated tenants as well as to Franklin Covey Products. The cost basis of the office space available for lease was \$33.2 million and had a carrying value of \$17.7 million at August 31,



2008. During fiscal 2008, we also had sublease agreements on two retail store locations that we have exited, but still have a remaining lease obligation. However, this obligation, and future sublease income, was assumed by Franklin Covey Products. Future minimum lease payments due to us from our sublease agreements at August 31, 2008, are as follows (in thousands):

YEAR ENDING AUGUST 31,	
2009	\$ 3,585
2010	2,897
2011	2,020
2012	2,085
2013	1,837
Thereafter	15,361
	\$ 27,785

Sublease payments made to the Company totaled \$2.7 million, \$2.4 million, and \$2.0 million, during the fiscal years ended August 31, 2008, 2007, and 2006 of which \$0.2 million, \$0.3 million, and \$0.3 million was recorded as a reduction of rent expense associated with underlying lease agreements in our selling, general, and administrative expense in fiscal 2008, 2007, and 2006. Sublease income from the leases at our corporate headquarters was reported as a component of product sales in our consolidated income statements and in other Consumer Solutions Business Unit sales in our segment reporting (Note 19).

## 9. COMMITMENTS AND CONTINGENCIES

### EDS Outsourcing Contract

The Company has an outsourcing contract with Electronic Data Systems (EDS) to provide information technology system support and product warehousing and distribution services. Subsequent to August 31, 2008, and primarily as a result of the sale of CSBU assets, we amended the terms of the outsourcing contract with EDS. Under terms of the amended outsourcing contract with EDS: 1) the outsourcing contract and its addendums will continue to expire on June 30, 2016; 2) Franklin Covey and Franklin Covey Products will have separate information systems services support contracts; 3) we will no longer be required to purchase specified levels of computer hardware technology; and 4) our warehouse and distribution costs will consist of an annual fixed charge, which is partially reimbursable by Franklin Covey Products, plus variable charges for actual activity levels. The warehouse and distribution fixed charge contains an annual escalation clause based upon changes in the Employment Cost Index. The following schedule summarizes our estimated minimum information systems support and fixed warehouse and distribution charges, without the effect of estimated escalation charges, to EDS for services over the remaining life of the outsourcing contract (in thousands):

YEAR ENDING AUGUST 31,	Estimated Gross Minimum and Fixed Charges	Receivable from Franklin Covey Products	Estimated Net Minimum and Fixed Charges
2009	\$ 4,138	\$ (2,159)	\$ 1,979
2010	4,138	(2,159)	1,979

2011	4,138	(2,159)	1,979
2012	4,138	(2,159)	1,979
2013	4,138	(2,159)	1,979
Thereafter	11,246	(6,114)	5,132
	\$ 31,936	\$ (16,909)	\$ 15,027

Our actual payments to EDS include a variable charge for certain warehousing and distribution activities and may fluctuate in future periods based upon actual sales and activity levels.

During fiscal years 2008, 2007, and 2006, we expensed \$26.7 million, \$30.1 million, and \$30.6 million for services provided under terms of the EDS outsourcing contract. The total amount expensed each year

under the EDS contract includes freight charges, which are billed to the Company based upon activity, that totaled \$8.8 million, \$9.6 million, and \$9.8 million during the years ended August 31, 2008, 2007, and 2006, respectively.

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

#### Purchase Commitments

During the normal course of business, we issue purchase orders to various external vendors for products and services. At August 31, 2008, we had purchase commitments totaling \$4.6 million for products and services to be delivered primarily in fiscal 2009. Other purchase commitments for materials, supplies, and other items incident to the ordinary conduct of business were immaterial, both individually and in aggregate, to the Company's operations at August 31, 2008.

#### Legal Matters

In August 2005, EpicRealm Licensing (EpicRealm) filed an action in the United States District Court for the Eastern District of Texas against the Company for patent infringement. The action alleged that the Company infringed upon two of EpicRealm's patents directed to managing dynamic web page requests from clients to a web server that in turn uses a page server to generate a dynamic web page from content retrieved from a data source. The Company denied liability in the patent infringement and filed counter-claims related to the case subsequent to the filing of the action in District Court. However, during the fiscal year ended August 31, 2008, the Company paid EpicRealm a one-time license fee of \$1.0 million for a non-exclusive, irrevocable, perpetual, and royalty-free license to use any product, system, or invention covered by the disputed patents. In connection with the purchase of the license, EpicRealm and the Company agreed to dismiss their claims with prejudice and the Company was released from further action regarding these patents.

The Company is also the subject of certain legal actions, which we consider routine to our business activities. At August 31, 2008, we believe that, after consultation with legal counsel, any potential liability to the Company under such actions will not materially affect our financial position, liquidity, or results of operations.

## 10. SHAREHOLDERS' EQUITY

#### Preferred Stock

Series A – In accordance with the terms and provisions of the preferred stock recapitalization approved in fiscal 2005, we redeemed all remaining outstanding shares of Series A preferred stock during the third quarter of fiscal 2007 at the liquidation preference of \$25 per share plus accrued dividends. In accordance with the terms and provisions of the recapitalization, we redeemed the outstanding shares of Series A preferred stock as shown below (in thousands):

Fiscal Year	Shares of Preferred Stock Redeemed	Carrying Value of Redeemed Preferred Shares
2007	1,494	\$ 37,345
2006	800	20,000



2005	1,200	30,000
	3,494	\$ 87,345

Series B – The preferred stock recapitalization completed in fiscal 2005 significantly changed the rights and preferences of our Series B preferred stock. New shares of Series A preferred stock would have automatically converted to shares of Series B preferred stock if the holder of the original Series A

preferred stock sold, or transferred, the preferred stock to another party. Series B preferred stock does not have common-equivalent voting rights, but retains substantially all other characteristics of the new Series A preferred stock. At August 31, 2008, there were 4.0 million shares of Series B preferred stock authorized, but no shares outstanding.

#### Common Stock Warrants

Pursuant to the terms of the preferred stock recapitalization plan, in fiscal 2005 we completed a one-to-four forward split of the existing Series A preferred stock and then bifurcated each share of Series A preferred stock into a new share of Series A preferred stock that is no longer convertible into common stock, and a warrant to purchase shares of common stock. Accordingly, we issued 6.2 million common stock warrants with an exercise price of \$8.00 per share (subject to customary anti-dilution and exercise features), which will be exercisable over an eight-year term that expires in March 2013. These common stock warrants were recorded at fair value on the date of the recapitalization, as determined by a Black-Scholes valuation methodology, which totaled \$7.6 million. During the fiscal years ended August 31, 2008 and 2007, our common stock warrant activity was insignificant.

#### Treasury Stock

Following the completion of the sale of CSBU assets (Note 2), we used substantially all of the net proceeds from the sale to conduct a modified “Dutch Auction” tender offer (the Tender Offer) to purchase up to \$28.0 million of our common stock at a price not less than \$9.00 per share or greater than \$10.50 per share. The Tender Offer closed fully subscribed on August 27, 2008 and we were able to purchase 3,027,027 shares of our common stock at \$9.25 per share plus normal transaction costs that were added to the cost basis of the shares. We recorded a \$28.2 million current liability at August 31, 2008 for these shares (Note 5) with a corresponding increase in treasury stock.

During fiscal 2006, our Board of Directors authorized the purchase of up to \$10.0 million of our currently outstanding common stock and canceled all previously approved common stock purchase plans. Common stock purchases under this approved plan are made at our discretion for prevailing market prices and are subject to customary regulatory requirements and considerations. The Company does not have a timetable for the purchase of these common shares and the authorization by the Board of Directors does not have an expiration date. During the fiscal years ended August 31, 2007 and 2006 we purchased 328,000 and 681,300 shares of our common stock under the terms of the fiscal 2006 plan for \$2.5 million and \$5.1 million, respectively. We did not purchase any shares of our common stock under this purchase plan during fiscal 2008 and at August 31, 2008, we had \$2.4 million remaining for future purchases under the terms of this approved plan. We also purchased 7,900 common shares for \$0.1 million during fiscal 2006 for exclusive distribution to participants in our employee stock purchase plan.

We have issued shares of treasury stock to participants in our employee stock purchase plan (ESPP) and for stock options and warrants as shown below (in thousands, except for share amounts):

Fiscal Year	Shares Issued to ESPP Participants	Shares of Stock Options and Warrants	Total Treasury Shares Issued for Stock Options, Warrants and ESPP	Cash Proceeds Received from the Issuance of Treasury Shares
2008	68,702	15,371	84,073	\$ 462
2007	55,513	37,500	93,013	321

2006	32,993	38,821	71,814	424
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In addition to the treasury shares shown above, we issued 36,000; 31,500; and 27,000 shares of our common stock held in treasury in connection with unvested and fully-vested stock awards during fiscal years 2008, 2007, and 2006 (Note 13).

## 11. MANAGEMENT COMMON STOCK LOAN PROGRAM

During fiscal 2000, certain of our management personnel borrowed funds from an external lender, on a full-recourse basis, to acquire shares of our common stock. The loan program closed during fiscal 2001 with 3.825 million shares of common stock purchased by the loan participants for a total cost of \$33.6 million, which was the market value of the shares acquired and distributed to loan participants. The Company initially participated on these management common stock loans as a guarantor to the lending institution. However, in connection with a new credit facility obtained during fiscal 2001, we acquired the loans from the external lender at fair value and are now the creditor for these loans. The loans in the management stock loan program initially accrued interest at 9.4 percent (compounded quarterly), are full-recourse to the participants, and were originally due in March 2005. Although interest continues to accrue on the outstanding balance over the life of the loans to the participants, the Company ceased recording interest receivable (and related interest income) related to these loans during the third quarter of fiscal 2002.

In May 2004, our Board of Directors approved modifications to the terms of the management stock loans. While these changes had significant implications for most management stock loan program participants, the Company did not formally amend or modify the stock loan program notes. Rather, the Company chose to forego certain of its rights under the terms of the loans and granted participants the modifications described below in order to potentially improve their ability to pay, and the Company's ability to collect, the outstanding balances of the loans. These modifications to the management stock loan terms applied to all current and former employees whose loans do not fall under the provisions of the Sarbanes-Oxley Act of 2002. Loans to the Company's officers and directors (as defined by the Sarbanes-Oxley Act of 2002) were not affected by the approved modifications and loans held by those persons, which totaled \$0.8 million, were repaid on the original due date of March 30, 2005.

The May 2004 modifications to the management stock loan terms included the following:

**Waiver of Right to Collect** – The Company waived its right to collect the outstanding balance of the loans prior to the earlier of (a) March 30, 2008, or (b) the date after March 30, 2005 on which the closing price of the Company's stock multiplied by the number of shares purchased equals the outstanding principal and accrued interest on the management stock loans (the Breakeven Date).

**Lower Interest Rate** – Effective May 7, 2004, the Company prospectively waived collection of all interest on the loans in excess of 3.16 percent per annum, which was the "Mid-Term Applicable Federal Rate" for May 2004.

**Use of the Company's Common Stock to Pay Loan Balances** – The Company may consider receiving shares of our common stock as payment on the loans, which were previously only payable in cash.

**Elimination of the Prepayment Penalty** – The Company will waive its right to charge or collect any prepayment penalty on the management common stock loans.

These modifications, including the reduction of the loan program interest rate, were not applied retroactively and participants remain obligated to pay interest previously accrued using the original interest rate. Also during fiscal 2005, our Board of Directors approved loan modifications for a former executive officer and a former director substantially similar to loan modifications previously granted to other loan participants in the management stock loan program as described above.

Prior to the May 2004 modifications, the Company accounted for the loans and the corresponding shares using a loan-based accounting model that included guidance found in SAB 102, Selected Loan Loss Allowance Methodology and Documentation Issues; SFAS No. 114, Accounting by Creditors for Impairment of A Loan - an Amendment of FASB Statements No. 5 and 15; and SFAS No. 5, Accounting



for Contingencies. However, due to the nature of the May 2004 modifications, the Company reevaluated its accounting for the management stock loan program. Based upon guidance found in EITF Issue 00-23, Issues Related to the Accounting for Stock Compensation under APB Opinion No. 25 and FASB Interpretation No. 44, and EITF Issue 95-16, Accounting for Stock Compensation Agreements with Employer Loan Features under APB Opinion No. 25, we determined that the management common stock loans should be accounted for as non-recourse stock compensation instruments. While this accounting treatment does not alter the legal rights associated with the loans to the employees as described above, the modifications to the terms of the loans were deemed significant enough to adopt the non-recourse accounting model as described in EITF 00-23. As a result of this accounting treatment, the remaining carrying value of the notes and interest receivable related to financing common stock purchases by related parties, which totaled \$7.6 million prior to the loan term modifications, was reduced to zero with a corresponding reduction in additional paid-in capital. Since the Company was unable to control the underlying management common stock loan shares, the loan program shares continued to be included in Basic earnings per share (EPS) following the May 2004 modifications.

We currently account for the management common stock loans as equity-classified stock option arrangements. Under the provisions of SFAS No. 123R, which we adopted on September 1, 2005, additional compensation expense will be recognized only if the Company takes action that constitutes a modification which increases the fair value of the arrangements. This accounting treatment also precludes us from reversing the amounts expensed as additions to the loan loss reserve, totaling \$29.7 million, which were recorded in prior periods.

During fiscal 2006, the Company offered participants in the management common stock loan program the opportunity to formally modify the terms of their loans in exchange for placing their shares of common stock purchased through the loan program in an escrow account that allows the Company to have a security interest in the loan program shares. The key modifications to the management common stock loans for the participants accepting the fiscal 2006 offer were as follows:

**Modification of Promissory Note** – The management stock loan due date was changed to be the earlier of (a) March 30, 2013, or (b) the Breakeven Date as defined by the May 2004 modifications. The interest rate on the loans increased from 3.16 percent compounded annually to 4.72 percent compounded annually.

**Redemption of Management Loan Program Shares** – The Company has the right to redeem the shares on the due date in satisfaction of the promissory notes as follows:

- On the Breakeven Date, the Company has the right to purchase and redeem from the loan participants the number of loan program shares necessary to satisfy the participant's obligation under the promissory note. The redemption price for each such loan program share will be equal to the closing price of the Company's common stock on the Breakeven Date.
- If the Company's stock has not closed at or above the breakeven price on or before March 30, 2013, the Company has the right to purchase and redeem from the participants all of their loan program shares at the closing price on that date as partial payment on the participant's obligation.

The fiscal 2006 modifications were intended to give the Company a measure of control of the outstanding loan program shares and to facilitate payment of the loans should the market value of the Company's stock equal the principal and accrued interest on the management stock loans. If a loan participant declines the offer to modify their management stock loan, their loan will continue to have the same terms and conditions that were previously approved in May 2004 by the Company's Board of Directors and their loans will be due at the earlier of March 30, 2008 or the Breakeven Date. Consistent with the May 2004 modifications, stock loan participants will be unable to realize a gain on the loan program shares unless they pay cash to satisfy the promissory note obligation prior to the due date. As of

the closing date of the extension offer, which was substantially completed in June 2006, management stock loan participants holding approximately 3.5 million shares, or 94 percent of the remaining loan

shares, elected to accept the extension offer and placed their management stock loan shares into the escrow account. The Company is currently in the process of collecting amounts due from participants that declined to place their shares in the escrow account during fiscal 2006.

As a result of this modification, the Company reevaluated its accounting treatment regarding the loan shares and their inclusion in Basic EPS. Since the management stock loan shares held in the escrow account continue to have the same income participation rights as other common shareholders, the Company has determined that the escrowed loan shares are participating securities as defined by EITF 03-06, Participating Securities and the Two-Class Method under FASB Statement No. 128. As a result, the management loan shares are included in the calculation of Basic EPS in periods of net income and excluded from Basic EPS in periods of net loss beginning in the fourth quarter of fiscal 2006, which was the completion of the escrow agreement modification.

During fiscal 2008, the effective interest rate on the management stock loans was reduced to 2.87 percent, compounded annually, which was the “Mid-Term Applicable Federal Rate” on the date of the interest rate change.

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.

## 12. FINANCIAL INSTRUMENTS

### Fair Value of Financial Instruments

The book value of our financial instruments at August 31, 2008 and 2007 approximates their fair values. The assessment of the fair values of our financial instruments is based on a variety of factors and assumptions. Accordingly, the fair values may not represent the actual values of the financial instruments that could have been realized at August 31, 2008 or 2007, or that will be realized in the future, and do not include expenses that could be incurred in an actual sale or settlement. The following methods and assumptions were used to determine the fair values of our financial instruments, none of which were held for trading or speculative purposes:

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

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

**Other Assets** – Our other assets, including notes receivable, were recorded at the net realizable value of estimated future cash flows from these instruments.

**Debt Obligations** – At August 31, 2008, our debt obligations consisted of a variable-rate line of credit, a tender offer obligation, and a variable-rate mortgage on our Canadian facility. Further information regarding the fair value of these liability instruments is provided below.

**Variable-Rate Line of Credit** – The interest rate on our line of credit obtained in fiscal 2007 is variable and is adjusted to reflect current market interest rates that would be available to us for a similar instrument. As a result, the carrying value of the outstanding balance on the line of credit approximates its fair value.

**Tender Offer Obligation** – Due to the very short-term nature of the tender offer obligation, which was paid in September 2008, the carrying value of the obligation approximates its fair value at August 31, 2008.





Variable-Rate Debt – The carrying value of our variable-rate mortgage in Canada approximated its fair value since the prevailing interest rate is adjusted to reflect market rates that would be available to us for a similar debt instrument with a corresponding remaining maturity.

#### Derivative Instruments

During the normal course of business, we are exposed to fluctuations in foreign currency exchange rates due to our international operations and interest rates. To manage risks associated with foreign currency exchange and interest rates, we make limited use of derivative financial instruments. Derivatives are financial instruments that derive their value from one or more underlying financial instruments. As a matter of policy, our derivative instruments are entered into for periods that do not exceed the related underlying exposures and do not constitute positions that are independent of those exposures. In addition, we do not enter into derivative contracts for trading or speculative purposes, nor are we party to any leveraged derivative instrument. The notional amounts of derivatives do not represent actual amounts exchanged by the parties to the instrument and thus, are not a measure of exposure to the Company through its use of derivatives. Additionally, we enter into derivative agreements only with highly rated counterparties.

Foreign Currency Exposure – Due to the global nature of our operations, we are subject to risks associated with transactions that are denominated in currencies other than the United States dollar, as well as the effects of translating amounts denominated in foreign currencies to United States dollars as a normal part of the reporting process. The objective of our foreign currency risk management activities is to reduce foreign currency risk in the consolidated financial statements. In order to manage foreign currency risks, we make limited use of foreign currency forward contracts and other foreign currency related derivative instruments. Although we cannot eliminate all aspects of our foreign currency risk, we believe that our strategy, which includes the use of derivative instruments, can reduce the impacts of foreign currency related issues on our consolidated financial statements.

During the fiscal years ended August 31, 2008, 2007, and 2006, we utilized foreign currency forward contracts to manage the volatility of certain intercompany financing transactions and other transactions that are denominated in foreign currencies. Because these contracts do not meet specific hedge accounting requirements, gains and losses on these contracts, which expire on a quarterly basis, are recognized currently and are used to offset a portion of the gains or losses of the related accounts. The gains and losses on these contracts were recorded as a component of selling, general, and administrative expense in our consolidated income statements and had the following impact on the periods indicated (in thousands):

YEAR ENDED				
AUGUST 31,	2008	2007	2006	
Losses on foreign exchange contracts	\$ (487)	\$ (249)	\$ (346)	
Gains on foreign exchange contracts	36	119	415	
Net gain (loss) on foreign exchange contracts	\$ (451)	\$ (130)	\$ 69	

At August 31, 2008, the fair value of these contracts, which was determined using the estimated amount at which contracts could be settled based upon forward market exchange rates, approximated the notional amounts of the contracts due to the proximity of the end of the contract to our fiscal year end on August 31, 2008. The notional amounts of our foreign currency sell contracts that did not qualify for hedge accounting were as follows at August 31, 2008 (in thousands):



Contract Description	Notional Amount in Foreign Currency	Notional Amount in U.S. Dollars
British Pounds	450	\$ 809
Japanese Yen	27,000	254
Australian Dollars	125	117

Interest Rate Risk Management – Due to the limited nature of our interest rate risk, we do not make regular use of interest rate derivatives and we were not a party to any interest rate derivative instruments during the fiscal years ended August 31, 2008, 2007, and 2006.

### 13. SHARE-BASED COMPENSATION PLANS

#### Overview

We utilize various share-based compensation plans as integral components of our overall compensation and associate retention strategy. Our shareholders have approved various stock incentive plans that permit us to grant performance awards, unvested stock awards, employee stock purchase plan (ESPP) shares, and stock options. In addition, our Board of Directors and shareholders may, from time to time, approve fully vested stock awards. At August 31, 2008, our stock option incentive plan, which permits the granting of performance awards, unvested stock awards to employees, and incentive stock options had approximately 1,944,000 shares available for granting (including the impact of the cancellation of all long-term performance awards as of August 31, 2008) and our 2004 ESPP plan had approximately 832,000 shares authorized for purchase by plan participants. The total cost of our share-based compensation plans for the fiscal years ended August 31, 2008, 2007, and 2006 were as follows (in thousands):

YEAR ENDED	2008	2007	2006
AUGUST 31,			
Performance awards	\$ (1,338)	\$ 835	\$ 503
Unvested share awards	969	481	296
Compensation cost of the ESPP	79	75	37
Stock options	31	3	7
	\$ (259)	\$ 1,394	\$ 843

The compensation cost of our share-based compensation plans was included in selling, general, and administrative expenses in the accompanying consolidated income statements and no share-based compensation was capitalized during fiscal years 2008, 2007 or 2006. The Company generally issues shares of common stock for its share-based compensation plans from shares held in treasury. The following is a description of our share-based compensation

plans.

#### Performance-Based Awards

During fiscal 2006, our shareholders approved a share-based long-term incentive plan (the LTIP) that permits an annual grant of performance-based share awards to certain executive and managerial personnel as directed by the Compensation Committee of the Board of Directors. The LTIP performance awards cliff vest, and are exchanged for shares of our common stock, on August 31 following the completion of a three-year measurement period. For example, performance awards granted in fiscal 2007 may have vested on August 31, 2009. Each fiscal year LTIP award provides for a target number of shares to be awarded if specified financial goals based on a combination of sales growth and cumulative operating income are achieved. However, the number of shares that are finally awarded to LTIP participants is variable and may range from zero shares, if a minimum level of performance is not

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achieved, to 200 percent of the target award, if the specifically defined performance criteria is exceeded during the three-year performance period.

The LTIP performance awards are valued at the closing price of our common stock on the grant date. The corresponding compensation cost of each LTIP award is expensed ratably over the measurement period of the award, which is approximately three years. Since the number of shares that may be issued under the LTIP is variable, we reevaluate the LTIP awards on a quarterly basis and adjust the number of shares expected to be awarded based upon financial results of the Company as 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 date of adjustment based upon the estimated probable number of shares to be awarded.

As we completed our evaluations of the LTIP awards during fiscal 2008, we reduced the number of shares expected to be awarded under the fiscal 2007 and fiscal 2006 LTIP grants based on current financial performance and expected future financial performance. As a result of these evaluations, we determined that no shares of common stock were expected to be awarded under any LTIP grant and all previously recognized share-based compensation expense, which totaled \$1.3 million, was reversed during fiscal 2008. On August 31, 2008, the fiscal 2006 LTIP award expired with no shares granted to participants and we do not expect any shares to vest under the fiscal 2007 LTIP award. Adjustments to decrease share-based compensation resulting from the regular evaluation of LTIP awards totaled \$0.4 million in fiscal 2007 and \$0.1 million in fiscal 2006 and all previously recognized tax benefits, which totaled \$0.3 million and \$0.2 million for the fiscal years ended August 31, 2007 and 2006, were reversed in fiscal 2008. There were no awards granted under the terms of the LTIP during the fiscal year ended August 31, 2008.

#### Unvested Stock Awards

The fair value of our unvested stock awards is calculated by multiplying the number of shares awarded by the closing market price of our common stock on the date of the grant. The corresponding compensation cost of unvested stock awards is amortized to selling, general, and administrative expense on a straight-line basis over the vesting period of the award, which generally ranges from three to five years. The following is a description of our unvested stock awards granted to certain members of our Board of Directors and to our employees.

**Board of Director Awards** – The non-employee directors' stock incentive plan (the Directors' Plan) is designed to provide non-employee directors of the Company, who are ineligible to participate in our employee stock incentive plan, an opportunity to acquire an interest in the Company through the acquisition of shares of common stock. The Directors' plan, as approved by our shareholders, allows for an annual unvested stock grant of 4,500 shares of common stock to each eligible member of our Board of Directors.

Under the provisions of the Directors' Plan, we issued 36,000 shares, 31,500 shares, and 27,000 shares of our common stock to eligible members of the Board of Directors during the fiscal years ended August 31, 2008, 2007, and 2006. The fair value of the shares awarded under the Directors' Plan was \$0.3 million, \$0.2 million, and \$0.2 million during fiscal 2008, 2007, and 2006, and was calculated on the grant date with the corresponding compensation cost being recognized over the vesting period of the awards, which is three years. The cost of the common stock issued from treasury stock for these awards was \$0.6 million, \$0.5 million, and \$0.4 million in fiscal years 2008, 2007, and 2006.

**Employee Awards** – During fiscal 2005 and in prior periods, we granted unvested stock awards to certain employees as long-term incentives. These unvested stock awards originally cliff vested five years from the grant date or on an accelerated basis if we achieved specified earnings levels. The compensation cost of these unvested stock awards was based on the fair value of our common shares on the grant date and was expensed on a straight-line basis over the vesting (service) period of the awards. The recognition of compensation cost was accelerated when we believed that it

was probable that we would achieve the specified earnings thresholds and the shares would vest.

In the fourth quarter of fiscal 2008, our Board of Directors accelerated the vesting of all remaining outstanding unvested share awards previously granted to employees. Based upon guidance in SFAS No. 123R, we determined that the accelerated vesting of these awards constituted modifications to the awards that required separate analysis for awards granted to CSBU employees and for awards granted to Organizational Solutions Business Unit (OSBU) and corporate employees. Since the unvested share awards granted to CSBU employees would not have vested under the original terms of the award (due to the sale of CSBU assets), the CSBU awards were revalued on the date of the modification. The fair value of our common stock was higher on the modification date than on the grant date, which resulted in \$0.4 million of additional share-based compensation expense in the fourth quarter of fiscal 2008. We determined that OSBU and corporate awards would have vested under the original award terms and based upon SFAS No. 123R, we accelerated the remaining unrecognized compensation cost, which increased share-based compensation by \$0.2 million during the fourth quarter of fiscal 2008. Following the accelerated vesting of these awards, we do not have any remaining unrecognized compensation cost for unvested share awards granted to employees.

During the fourth quarter of fiscal 2007, the financial performance goals were reached for certain employees and one-half of their awards were accelerated. Other awards were vested during fiscal 2007 in connection with the termination of certain management employees. The accelerated vesting of these awards were accounted for as modifications under the provisions of SFAS No. 123R during fiscal 2007. The additional share-based compensation expense resulting from these modifications totaled \$0.1 million.

The following information applies to our unvested stock awards for the fiscal year ended August 31, 2008:

	Number of Shares	Weighted-Average Grant-Date Fair Value Per Share
Unvested stock awards at August 31, 2007	410,670	\$ 3.80
Granted	36,000	7.50
Forfeited	-	-
Vested	(352,170)	3.13
Unvested stock awards at August 31, 2008	94,500	\$ 7.73

At August 31, 2008, there was \$0.4 million of total unrecognized compensation cost related to unvested stock awards granted to our Board of Directors, which is expected to be recognized over the weighted-average vesting period of approximately two years. Compensation expense related to our unvested stock awards totaled \$1.0 million, \$0.5 million, and \$0.3 million, in fiscal years 2008, 2007, and 2006, and the total recognized tax benefit from unvested stock awards totaled \$0.4 million, \$0.2 million, and \$0.1 million for the fiscal years ended August 31, 2008, 2007, and 2006, respectively. The intrinsic value of our unvested stock awards at August 31, 2008 was \$0.8 million.

#### Employee Stock Purchase Plan

We have an employee stock purchase plan (Note 16) 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 the Company's common stock on the last trading day of the calendar month in each fiscal quarter. Based upon guidance in SFAS No. 123R, we determined that the discount offered to employees under the ESPP is compensatory and the amount is therefore



expensed at each grant date. During the fiscal year ended August 31, 2008, a total of 68,702 shares were issued to participants in the ESPP.

#### Stock Options

The Company has 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 the

Company's common stock on the date of grant. The term, not to exceed ten years, and exercise period of each incentive stock option awarded under the plan are determined by a committee appointed by our Board of Directors.

Information related to stock option activity during the fiscal year ended August 31, 2008 is presented below:

	Number of Stock Options	Weighted Avg. Exercise Price Per Share	Weighted Avg. Remaining Contractual Life (Years)	Aggregate Intrinsic Value (thousands)
Outstanding at August 31, 2007	2,058,300	\$ 12.72		
Granted	-	-		
Exercised	(12,500)	1.70		
Forfeited	(18,000)	9.69		
Outstanding at August 31, 2008	2,027,800	\$ 12.82	1.8	\$ 439
Options vested and exercisable at August 31, 2008	2,027,800	\$ 12.82	1.8	\$ 439

Company policy generally allows terminated employees 90 days from the date of termination to exercise vested stock options. However, in connection with the sale of our CSBU (Note 2) during fiscal 2008, we granted extensions to former CSBU employees, who had vested stock options, which allow the stock options to be exercised up to the original expiration date. We determined that these extensions were modifications to the stock options under the guidance found in SFAS No. 123R. The incremental compensation expense resulting from the modification of these stock options was calculated through the use of a Black-Scholes valuation model and totaled approximately \$31,000, which was expensed during the fourth quarter of fiscal 2008 since the modified stock options were fully vested prior to the modification date.

The Company did not grant any stock options during the fiscal years ended August 31, 2008, 2007 or 2006, and has no remaining unamortized service cost related to granted stock options.

The following additional information applies to our stock options outstanding at August 31, 2008:

Range of Exercise Prices	Number Outstanding at August 31, 2008	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Options Exercisable at August 31, 2008	Weighted Average Exercise Price
\$ 2.78 – \$ 8.19	226,300	1.6	\$ 7.01	226,300	\$ 7.01
9.69 – \$ 9.69	194,500	0.7	9.69	194,500	9.69
\$	1,602,000	2.0	14.00	1,602,000	14.00

	14.00 –					
	\$14.00					
	17.69 –					
\$	\$17.69	5,000	0.3	17.69	5,000	17.69
		2,027,800			2,027,800	

The Company received proceeds totaling approximately \$21,000, \$0.1 million, and \$0.2 million in fiscal 2008, fiscal 2007, and fiscal 2006 from the exercise of common stock options. The intrinsic value of stock options exercised was \$0.1 million, \$0.3 million, and \$0.1 million for the fiscal years ended August 31, 2008, 2007, and 2006 and the fair value of options that vested during those periods totaled \$9,375 each year.

#### 14. SALE OF OPERATIONS IN BRAZIL AND MEXICO

During the fourth quarter of fiscal 2007 we completed the sales of our wholly-owned subsidiary located in Brazil and the training operations of our wholly-owned subsidiary in Mexico. These operations were

sold to third-party entities that will continue to conduct business in Brazil and Mexico as licensees and will be required to pay the Company royalties consistent with other foreign licensees. Since we will continue to participate in the cash flows of these subsidiaries through royalty payments, which are based primarily upon the sales recorded by the licensees, and we expect to have significant continuing involvement in the operations of the licensees, we determined that the financial results of these subsidiaries should not be reported as discontinued operations in our consolidated income statements in accordance with guidance found in SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The financial results of these subsidiaries were previously reported in the international segment of the Organizational Solutions Business Unit.

The sales of the Brazil and Mexico subsidiaries were structured such that the net assets of the subsidiaries were sold at their carrying values plus reimbursement of severance costs paid in Mexico. The carrying amounts of the assets and liabilities of our Brazil subsidiary and training operations of Mexico, which were sold during the quarter ended August 31, 2007 were as follows (in thousands):

Description	Brazil	Mexico	Total
Cash	\$ 95	\$ -	\$ 95
Accounts receivable, net	374	210	584
Inventories	155	134	289
Other current assets	220	28	248
Property and equipment, net	365	43	408
Other assets	51	375	426
Total assets sold	\$ 1,260	\$ 790	\$ 2,050
Accounts payable	\$ 127	\$ -	\$ 127
Accrued liabilities	260	-	260
Total liabilities sold	\$ 387	\$ -	\$ 387

Certain assets and liabilities that were previously held for sale in Mexico were retained by the Company and were reclassified as assets to be held and used at August 31, 2007. We received promissory notes for the sales prices totaling \$1.5 million, of which \$1.2 million was due during fiscal 2008 and was reported as a component of other current assets at August 31, 2007. Due to the disposition of these subsidiaries, we recorded a \$0.1 million benefit from the cumulative translation adjustment related to assets and liabilities sold, which was offset by expenses necessary to complete the transaction. The net costs to complete the sales transactions resulted in an immaterial loss that was included in consolidated selling, general and administrative expenses for the year ended August 31, 2007.

## 15. LEGAL SETTLEMENT

In fiscal 2002, we filed legal action against World Marketing Alliance, Inc., a Georgia corporation (WMA), and World Financial Group, Inc., a Delaware corporation and purchaser of substantially all assets of WMA, for breach of contract. The case proceeded to trial and the jury rendered a verdict in our favor and against WMA on November 1, 2004 for the entire unpaid contract amount of approximately \$1.1 million. In addition to the verdict, we recovered legal fees totaling \$0.3 million and pre- and post-judgment interest of \$0.3 million from WMA. During our fiscal quarter ended May 28, 2005, we received payment in cash from WMA for the total verdict amount, including legal

fees and interest. However, shortly after paying the verdict amount, WMA appealed the jury decision to the 10th Circuit Court of Appeals and we recorded receipt of the verdict amount plus legal fees and interest with a corresponding increase to accrued liabilities and deferred the gain until the case was finally resolved. On December 30, 2005, the Company entered into a settlement agreement with WMA. Under the terms of the settlement agreement, WMA agreed to dismiss its appeal. As a result of this settlement agreement and dismissal of WMA's appeal, we recorded a \$0.9 million gain from the legal settlement during fiscal 2006. We also recorded a \$0.3 million reduction in selling, general and, administrative expenses during fiscal 2006 for recovered legal expenses.

## 16.EMPLOYEE BENEFIT PLANS

### Profit Sharing Plans

We have defined contribution profit sharing plans for our employees that qualify under Section 401(k) of the Internal Revenue Code. These plans provide retirement benefits for employees meeting minimum age and service requirements. Qualified participants may contribute up to 75 percent of their gross wages, subject to certain limitations. These plans also provide for matching contributions to the participants that are paid by the Company. The matching contributions, which were expensed as incurred, totaled \$1.5 million, \$1.5 million, and \$1.3 million during the fiscal years ended August 31, 2008, 2007, and 2006. The Company does not have any defined benefit pension plans.

### Employee Stock Purchase Plan

The Company has an employee stock purchase plan (ESPP) 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 each quarter. A total of 68,702; 55,513; and 32,993 shares were issued under the ESPP during the fiscal years ended August 31, 2008, 2007, and 2006, which had a corresponding cost basis of \$0.9 million, \$0.5 million, and \$0.2 million, respectively. The Company received cash proceeds from the ESPP participants totaling \$0.4 million, \$0.3 million, and \$0.2 million, for fiscal years 2008, 2007, and 2006.

### Deferred Compensation Plan

We have a non-qualified deferred compensation plan that provided certain key officers and employees the ability to defer a portion of their compensation until a later date. Deferred compensation amounts used to pay benefits are held in a "rabbi trust," which invests in insurance contracts, various mutual funds, and shares of the Company's common stock as directed by the plan participants. The trust assets, which consist of the investments in insurance contracts and mutual funds, are recorded in our consolidated balance sheets because they are subject to the claims of our creditors. The corresponding deferred compensation liability represents the amounts deferred by plan participants plus or minus any earnings or losses on the trust assets. The deferred compensation plan's assets totaled \$0.5 million and \$0.7 million at August 31, 2008 and 2007, while the plan's liabilities totaled \$0.7 million and \$0.9 million at August 31, 2008 and 2007. At August 31, 2008, the rabbi trust also held shares of our common stock with a cost basis of \$0.5 million. The assets and liabilities of the deferred compensation plan were recorded in other long-term assets, treasury stock, additional paid-in capital, and long-term liabilities, as appropriate, in the accompanying consolidated balance sheets.

We expensed charges totaling \$0.1 million during each of the fiscal years ended August 31, 2008, 2007, and 2006 related to insurance premiums and external administration costs for our deferred compensation plan.

Due to legal changes resulting from the American Jobs Creation Act of 2004, the Company determined to cease compensation deferrals to this deferred compensation plan after December 31, 2004. Other than the cessation of compensation deferrals and the requirement to distribute investments in Company stock with shares of stock, the plan will continue to operate and make payments to participants under the same rules as in prior periods.



## 17. INCOME TAXES

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

YEAR ENDED AUGUST 31,	2008	2007	2006
<b>Current:</b>			
Federal	\$ (39)	\$ (350)	\$ 1,433
State	(248)	(135)	(23)
Foreign	(3,346)	(2,318)	(1,903)
	(3,633)	(2,803)	(493)
<b>Deferred:</b>			
Federal	\$ (4,276)	\$ (4,880)	\$ (4,380)
State	(205)	(433)	(376)
Foreign	12	49	(132)
Change in valuation allowance	116	31	20,323
	(4,353)	(5,223)	15,435
	\$ (7,986)	\$ (8,036)	\$ 14,942

Income from operations before income taxes consisted of the following (in thousands):

YEAR ENDED AUGUST 31,	2008	2007	2006
<b>United States</b>			
	\$ 8,857	\$ 11,914	\$ 10,881
Foreign	4,977	3,751	2,750
	\$ 13,834	\$ 15,665	\$ 13,631

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

YEAR ENDED AUGUST 31,	2008	2007	2006
Federal statutory income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal effect	3.3	3.6	2.9
Deferred tax valuation allowance	-	-	(149.1)
Foreign jurisdictions tax differential	3.8	1.6	2.2
	8.0	4.2	1.5



Tax differential on income subject to both U.S. and foreign taxes			
Uncertain tax positions	(1.5)	(0.9)	(9.4)
Tax on management stock loan interest	5.0	5.0	4.5
Non-deductible executive compensation	2.1	-	0.6
Other	2.0	2.8	2.2
	57.7%	51.3%	(109.6)%

Due to improved operating performance and the availability of expected future taxable income, we have concluded that it is more likely than not that the benefits of deferred income tax assets will be realized. Accordingly, we reversed the valuation allowances on the majority of our net deferred income tax assets during the fourth quarter of fiscal 2006 (see further discussion below).

We paid significant amounts of withholding tax on foreign royalties during fiscal years 2008, 2007, and 2006. However, no domestic foreign tax credits were available to offset the foreign withholding taxes during those years.

Various uncertain tax positions were resolved during the fiscal years ended August 31, 2008, 2007, and 2006, which resulted in net tax benefits to the Company. The tax benefit recognized in fiscal 2006 was partially offset by an assessment paid in a foreign tax jurisdiction.

The Company accrues taxable interest income on outstanding management common stock loans (Note 11). Consistent with the accounting treatment for these loans, the Company is not recognizing interest income for book purposes, thus resulting in a permanent book versus tax difference.

The significant components of our deferred tax assets and liabilities were comprised of the following (in thousands):

YEAR ENDED AUGUST 31,	2008	2007
Deferred income tax assets:		
Sale and financing of corporate headquarters	\$ 11,912	\$ 12,078
Net operating loss carryforward	7,815	9,818
Investment in Franklin Covey Products	2,986	-
Foreign income tax credit carryforward	2,159	2,246
Impairment of investment in Franklin Covey Coaching, LLC	1,701	2,249
Bonus and other accruals	1,135	1,432
Alternative minimum tax carryforward	881	863
Inventory and bad debt reserves	832	1,515
Deferred compensation	503	912
Sales returns and contingencies	414	468
Other	559	810
Total deferred income tax assets	30,897	32,391
Less: valuation allowance	(2,475)	(2,591)
Net deferred income tax assets	28,422	29,800
Deferred income tax liabilities:		
Intangibles step-ups – definite lived	(11,863)	(12,821)
	(8,647)	(8,633)

Intangibles step-ups –  
indefinite lived

Property and equipment depreciation	(7,294)	(3,574)
Intangible asset impairment and amortization	(2,018)	(893)
Unremitted earnings of foreign subsidiaries	(586)	(630)
Other	(85)	(78)
Total deferred income tax liabilities	(30,493)	(26,629)
Net deferred income taxes	\$ (2,071)	\$ 3,171

Deferred income tax amounts are recorded as follows in our consolidated balance sheets (in thousands):

YEAR ENDED

AUGUST 31,	2008	2007
Current assets	\$ 2,472	\$ 3,635
Long-term assets	29	101
Long-term liabilities	(4,572)	(565)
Net deferred income tax asset (liability)	\$ (2,071)	\$ 3,171

A federal net operating loss of \$33.3 million was generated in fiscal 2003. During fiscal years 2005 through 2008, a total of \$30.2 million of the fiscal 2003 loss carryforward was utilized, leaving a remaining loss carryforward from fiscal 2003 of \$3.1 million, which expires on August 31, 2023. The federal net operating loss carryforward generated in fiscal 2004 totaled \$20.8 million and expires on August 31, 2024. The total loss carryforward includes \$1.3 million of deductions applicable to additional paid-in capital that will be credited once all loss carryforward amounts are utilized.

The state net operating loss carryforward of \$33.3 million generated in fiscal 2003 was reduced by the utilization of \$30.2 million during fiscal years 2005 through 2008 for a net carryforward amount of \$3.1 million, which primarily expires between August 31, 2008 and August 31, 2018. The state net operating loss carryforward of \$20.8 million generated in fiscal 2004 primarily expires between August 31, 2008 and August 31, 2019.

The amount of federal and state net operating loss carryforwards remaining at August 31, 2008 and deductible against future years' taxable income are subject to limitations imposed by Section 382 of the Internal Revenue Code and similar state statutes. Under Section 382, we estimate that deductible losses will be limited to \$22.3 million for fiscal 2009 and \$9.5 million per year in subsequent years, not to exceed the remaining loss carryforward amounts as of the beginning of each year.

Our foreign income tax credit carryforward of \$2.2 million that was generated during fiscal 2002 expires on August 31, 2012.

#### Valuation Allowance on Deferred Tax Assets

Our deferred income tax asset valuation allowance decreased by \$35.6 million during fiscal 2006. In connection with the reduction in our valuation allowance, we removed \$15.2 million in deferred income tax assets and the corresponding valuation allowance on the management common stock loans, given the change in the accounting treatment of the management stock loan program (Note 11). The remaining reduction in our deferred income tax asset valuation allowance resulted in a tax benefit of \$20.4 million in fiscal 2006. Because of the accounting treatment of the management stock loans, if any tax benefit is eventually realized on these loans it will be recorded as an increase to additional paid-in capital, rather than reducing our income tax expense.

We concluded that the realization of our U.S. domestic deferred tax assets, except for foreign tax credit carryforwards, was more likely than not at August 31, 2006. Before August 31, 2006, we were precluded from reversing valuation allowances on our deferred tax assets, because we had a cumulative U.S. domestic pre-tax loss for the preceding three years. However, as of August 31, 2006, we had positive cumulative U.S. pre-tax income for the preceding three years, thus allowing us to consider reversing valuation allowances on our deferred tax assets.

We determined that projected future taxable income at the budget, more likely than not, and probable levels would be more than adequate to allow for realization of all U.S. domestic deferred tax assets, except for those related to foreign tax credits. We considered sources of taxable income described in SFAS No. 109, paragraph 21, including future reversals of taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards, and reasonable, practical tax-planning strategies to generate additional taxable income. We also noted that the Company had nearly met or had exceeded budgeted financial targets for the past two years and that Company leaders had worked extensively and successfully on developing a formal business model, allowing for more reliable budgeting, better fiscal discipline, and more timely ability to identify and resolve problems.

Based on the factors described above, we concluded that realization of our domestic deferred tax assets, except for foreign tax credit carryforwards, was more likely than not at August 31, 2006. Accordingly, we reversed valuation allowances on the applicable deferred tax assets. Since fiscal 2006, we have



continued to be profitable, and we have utilized a significant portion of the deferred income tax assets existing at August 31, 2006, particularly net operating loss carryforwards.

To realize the benefit of our deferred income tax assets, we must generate total taxable income of approximately \$77 million over the next 19 years. Taxable income of approximately \$60 million results from the reversal of temporary taxable differences. The remaining taxable income of approximately \$17 million must be generated by the operations of the Company. The table below presents the pre-tax book income, significant book versus tax differences, and taxable income for the years ended August 31, 2008, 2007, and 2006 (in thousands).

YEAR ENDED AUGUST 31,	2008	2007	2006
Domestic pre-tax book income	\$ 8,857	\$ 11,914	\$ 10,881
Deferred taxable loss on sale of assets to Franklin Covey Products	5,203	-	-
Deferred gain for book purposes on sale of assets to Franklin Covey Products	2,755	-	-
Interest on management common stock loans	1,968	2,243	1,771
Property and equipment depreciation and dispositions	(10,459)	1,170	(3,114)
Amortization/write-off of intangible assets	(2,028)	(2,814)	(1,944)
Changes in accrued liabilities	(2,373)	(1,217)	(4,096)
Share-based compensation	(1,144)	933	599
Other book versus tax differences	(541)	(468)	(1,297)
	\$ 2,238	\$ 11,761	\$ 2,800

#### Adoption of FIN 48

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109. This interpretation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under the provisions of FIN 48, 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 on 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 ultimate settlement. Interpretation No. 48 also provides guidance on de-recognition, classification, interest and penalties on income taxes, accounting for income taxes in interim periods, and requires increased disclosure of various income tax items.

We adopted the provisions of FIN 48 on September 1, 2007 and the implementation of FIN 48 did not result in a material change to our previous liability for unrecognized tax benefits. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows (in thousands):

#### Description

\$ 4,349

Balance at September 1, 2007	
Additions based on tax positions related to fiscal 2008	267
Additions for tax positions in prior years	31
Reductions for tax positions of prior years resulting from the lapse of applicable statute of limitations	(292)
Other reductions for tax positions of prior years	(123)
Balance at August 31, 2008	\$ 4,232

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is \$3.0 million. Included in the ending balance of gross unrecognized tax benefits is \$3.1 million related to individual states' net operating loss carryforwards. Interest and penalties related to uncertain tax positions are recognized as components of income tax expense. The net accruals and reversals of interest and penalties reduced income tax expense by a total of \$0.1 million during fiscal 2008. The balance of interest and penalties included on the balance sheet at August 31, 2008 is \$0.1 million. The Company does not expect significant increases or decreases in unrecognized tax benefits during the next 12 months.

We file United States federal income tax returns as well as income tax returns in various states and foreign jurisdictions. The tax years that remain subject to examinations for the Company's major tax jurisdictions are shown below. Additionally, any net operating losses that were generated in prior years and utilized in these years may be subject to examination.

2001-2008 Canada  
 2003-2008 Japan,  
     United  
     Kingdom  
 2004-2008 United  
     States –  
     state and  
     local  
     income  
     tax  
 2005-2008 United  
     States –  
     federal  
     income  
     tax

## 18. EARNINGS PER SHARE

Basic earnings or loss per share (EPS) is calculated by dividing net income or loss available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS is calculated by dividing net income or loss available to common shareholders by the weighted-average number of common shares outstanding plus the assumed exercise of all dilutive securities using the treasury stock method or the "as converted" method, as appropriate. Due to modifications to our management stock loan program (Note 11), we determined that the shares of management stock loan participants that were placed in the escrow account are participating securities as defined by EITF Issue No. 03-6, Participating Securities and the Two-Class Method under FASB Statement No. 128, 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.

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

YEAR ENDED				
AUGUST 31,		2008	2007	2006
Net income	\$	5,848	\$ 7,629	\$ 28,573



Preferred stock dividends	-	(2,215)	(4,385)
Net income available to common shareholders	\$ 5,848	\$ 5,414	\$ 24,188

Weighted average common shares outstanding – Basic	19,577	19,593	20,134
Effect of dilutive securities:			
Stock options	10	29	52
Unvested stock awards	213	266	281
Common stock warrants(1)	122	-	49
Weighted average common shares outstanding – Diluted	19,922	19,888	20,516
Basic EPS	\$ .30	\$ .28	\$ 1.20
Diluted EPS	\$ .29	\$ .27	\$ 1.18

(1) For the fiscal year ended August 31, 2007, the conversion of 6.2 million common stock warrants is not assumed because such conversion would be anti-dilutive.

At August 31, 2008, 2007, and 2006, we had 1.8 million, 1.9 million, and 2.0 million stock options outstanding (Note 13) that were not included in the calculation of diluted weighted average shares outstanding for those periods because the options' exercise prices were greater than the average market price of our common stock. We also have 6.2 million common stock warrants outstanding that have an exercise price of \$8.00 per share (Note 10). These warrants, which expire in March 2013, and the out-of-the-money stock options described above will have a more pronounced dilutive impact on our EPS calculation in future periods if the market price of our common stock increases.

## 19. SEGMENT INFORMATION

### Reportable Segments

During the majority of fiscal 2008 we had two segments: the Organizational Solutions Business Unit (OSBU) and the Consumer Solutions Business Unit (CSBU). However, during the fourth quarter of fiscal 2008, we completed the sale of substantially all of the assets of the CSBU (Note 2), which reduced amounts reported by that segment in fiscal 2008. The following is a description of these segments, their primary operating components, and their significant business activities during the periods reported:

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

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

The Company's chief operating decision maker is the Chief Executive Officer and the primary measurement tool used in our business unit performance analysis is earnings before interest, taxes, depreciation, and amortization (EBITDA), which may not be calculated as similarly titled amounts calculated by other companies. For segment reporting purposes, our consolidated EBITDA can be calculated as income from operations excluding depreciation expense, amortization expense, the gain from the sale of CSBU assets, and the gain from the sale of our manufacturing facility in fiscal 2007. The fiscal 2008 restructuring charge, which totaled \$2.1 million, was allocated \$1.1 million to OSBU domestic and \$1.0 million to OSBU international. The \$1.5 million asset impairment was attributed to OSBU domestic financial results in the following segment information.

In the normal course of business, the Company may make structural and cost allocation revisions to our segment information to reflect new reporting responsibilities within the organization. During fiscal 2008, we transferred our public programs operations from CSBU to OSBU and made other less significant organizational changes. All prior period segment information has been revised to conform to the most recent classifications and organizational changes. We account for our segment information on the same basis as the accompanying consolidated financial statements.

## SEGMENT INFORMATION

(in thousands)

Fiscal Year Ended August 31, 2008	Sales to External Customers	Gross Profit	EBITDA	Depreciation	Amortization	Segment Assets	Capital Expenditures
Organizational Solutions Business Unit:							
Domestic	\$ 91,287	\$ 56,684	\$ 259	\$ 1,364	\$ 3,596	\$ 80,916	\$ 4,782
International	59,100	42,517	16,892	754	7	21,540	535
Total OSBU	150,387	99,201	17,151	2,118	3,603	102,456	5,317
Consumer Solutions Business Unit:							
Retail	42,167	25,474	2,849	697	-	-	263
Consumer direct	38,662	22,657	14,667	233	-	-	110
Wholesale CSBU	16,970	9,266	8,788	-	-	-	-
International	7,295	3,837	1,279	40	-	-	-
Other CSBU	4,611	1,354	(18,943)	1,188	-	-	912
Total CSBU	109,705	62,588	8,640	2,158	-	-	1,285
Total operating segments	260,092	161,789	25,791	4,276	3,603	102,456	6,602
Corporate and eliminations	-	-	(8,867)	1,416	-	76,471	401
Consolidated	\$ 260,092	\$ 161,789	\$ 16,924	\$ 5,692	\$ 3,603	\$ 178,927	\$ 7,003

Fiscal Year Ended August 31, 2007

Organizational Solutions Business Unit:

Domestic	\$ 93,308	\$ 60,337	\$ 10,161	\$ 668	\$ 3,599	\$ 81,526	\$ 6,166
International	57,674	39,566	13,280	839	8	22,588	655
Total OSBU	150,982	99,903	23,441	1,507	3,607	104,114	6,821

Consumer Solutions Business Unit:

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Retail	54,316	31,932	4,666	735	-	8,607	1,761
Consumer direct	48,018	27,829	18,509	222	-	620	358
Wholesale	17,991	10,087	9,475	-	-	-	-
CSBU							
International	7,342	4,373	894	-	-	-	-
Other CSBU	5,476	954	(22,283)	1,963	-	9,052	5,503
Total CSBU	133,143	75,175	11,261	2,920	-	18,279	7,622
Total operating segments	284,125	175,078	34,702	4,427	3,607	122,393	14,443
Corporate and eliminations	-	-	(8,844)	967	-	74,238	678
Consolidated	\$ 284,125	\$ 175,078	\$ 25,858	\$ 5,394	\$ 3,607	\$ 196,631	\$ 15,121

Fiscal Year Ended August 31, 2006

Organizational Solutions Business Unit:

Domestic	\$ 84,904	\$ 54,479	\$ 7,828	\$ 376	\$ 3,747	\$ 83,292	\$ 4,614
International	48,984	32,074	9,337	1,197	9	21,860	701
Total OSBU	133,888	86,553	17,165	1,573	3,756	105,152	5,315

Consumer Solutions Business Unit:

Retail	62,156	36,059	4,953	1,270	-	6,616	855
Consumer direct	52,171	30,462	21,308	48	-	538	517
Wholesale	17,782	8,820	8,240	-	-	-	-
CSBU							
International	7,716	4,682	1,131	-	-	-	-
Other CSBU	4,910	1,385	(22,871)	1,850	57	6,107	1,520
Total CSBU	144,735	81,408	12,761	3,168	57	13,261	2,892
Total operating segments	278,623	167,961	29,926	4,741	3,813	118,413	8,207
Corporate and eliminations	-	-	(6,712)	614	-	98,146	153
Consolidated	\$ 278,623	\$ 167,961	\$ 23,214	\$ 5,355	\$ 3,813	\$ 216,559	\$ 8,360

Capital expenditures in our OSBU domestic segment include \$4.0 million, \$5.1 million, and \$4.0 million of spending on capitalized curriculum during the fiscal years ended August 31, 2008, 2007 and 2006, respectively.

A reconciliation of reportable segment EBITDA to consolidated income (loss) before taxes is provided below (in thousands):



YEAR ENDED AUGUST 31,	2008	2007	2006
Reportable segment			
EBITDA	\$ 25,791	\$ 34,702	\$ 29,926
Corporate expenses	(8,867)	(8,844)	(6,712)
Consolidated EBITDA	16,924	25,858	23,214
Gain on sale of CSBU assets	9,131	-	-
Gain on sale of manufacturing facility	-	1,227	-
Depreciation	(5,692)	(5,394)	(5,355)
Amortization	(3,603)	(3,607)	(3,813)
Consolidated income from operations	16,760	18,084	14,046
Interest income	157	717	1,334
Interest expense	(3,083)	(3,136)	(2,622)
Legal settlement	-	-	873
Income before income taxes	\$ 13,834	\$ 15,665	\$ 13,631

Interest expense and interest income are primarily generated at the corporate level and are not allocated to the segments. Income taxes are likewise calculated and paid on a corporate level (except for entities that operate in foreign jurisdictions) and are not allocated to segments for analysis.

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

AUGUST 31,	2008	2007	2006
Reportable segment assets	\$ 102,456	\$ 122,393	\$ 118,413
Corporate assets	78,010	76,047	99,763
Intercompany accounts receivable	(1,539)	(1,809)	(1,617)
	\$ 178,927	\$ 196,631	\$ 216,559

#### Enterprise-Wide Information

Our revenues are derived primarily from the United States. However, we also operate wholly-owned offices or contract with licensees to provide products and services in various countries throughout the world. Our consolidated revenues were derived from the following countries (in thousands):

YEAR ENDED			
AUGUST 31,	2008	2007	2006
Net sales:			
United States	\$ 197,181	\$ 219,152	\$ 221,880
Japan	26,510	24,166	21,569
Canada	10,389	8,400	8,197
United Kingdom	10,174	9,843	8,587
Australia	4,313	4,016	3,439
Mexico	1,905	4,362	3,799
Singapore	1,443	1,306	1,072
Brazil/South America	1,283	4,314	3,078
Korea	1,234	1,377	1,403
Indonesia/Malaysia	794	710	624
Others	4,866	6,479	4,975
	\$ 260,092	\$ 284,125	\$ 278,623

The Company had wholly-owned offices in Japan, Canada, the United Kingdom, Australia and product sales operations in Mexico during fiscal 2008. Our long-lived assets held in these locations were as follows for the periods indicated (in thousands):



AUGUST 31,	2008	2007	2006
Long-lived assets:			
United States	\$ 106,878	\$ 121,279	\$ 124,208
Americas	2,230	2,433	2,661
Japan	1,509	1,453	1,489
United Kingdom	258	976	735
Australia	141	387	346
	\$ 111,016	\$ 126,528	\$ 129,439

Inter-segment sales were immaterial and are eliminated in consolidation.

## 20. RELATED PARTY TRANSACTIONS

The Company pays the Vice-Chairman and a former Vice-Chairman of the Board of Directors a percentage of the proceeds received for seminars that they present. During the fiscal years ended August 31, 2008, 2007, and 2006, we expensed charges totaling \$2.9 million, \$2.0 million, and \$1.6 million, to the Vice-Chairman and former Vice Chairman for their seminar presentations. We also pay the Vice-Chairman and former Vice-Chairman a percentage of the royalty proceeds received from the sale of certain books that were authored by them. During fiscal 2008, 2007, and 2006, we expensed \$0.3 million, \$0.2 million, and \$0.2 million for royalty payments made to the Vice-Chairman and former Vice-Chairman under these agreements. At August 31, 2008 and 2007, we had accrued \$0.6 million and \$0.3 million payable to the Vice-Chairman and former Vice-Chairman under the forgoing agreements. These amounts were included as a component of accrued liabilities in our consolidated balance sheets.

We pay a son of the Vice-Chairman of the Board of Directors, who is also an employee of the Company, a percentage of the royalty proceeds received from the sales of certain books authored by the son of the Vice-Chairman. During the fiscal years ended August 31, 2008, 2007, and 2006, we expensed \$0.7 million, \$0.4 million, and \$0.3 million to the son of the Vice-Chairman for these royalty payments and had \$0.1 million accrued at August 31, 2008 and 2007 as payable under the terms of this arrangement. These amounts are included in accrued liabilities in our consolidated balance sheets.

During fiscal 2006, we signed a non-exclusive license agreement for certain intellectual property with a son of the Vice-Chairman of the Board of Directors, who was previously an officer of the Company and a member of our Board of Directors. We are required to pay the son of the Vice-Chairman royalties for the use of certain intellectual property developed by the son of Vice-Chairman. Our payments to the son of the Vice-Chairman totaled \$0.3 million, \$0.2 million, and \$0.1 million during the fiscal years ended August 31, 2008, 2007, and 2006, respectively. The license agreement provides for minimum royalty payments during the term of the agreement, which expires in fiscal 2011. The license agreement also contains a provision that allows us to extend the term of the agreement for an additional five years. The minimum royalties are payable as follows (in thousands):

YEAR	
ENDING	
AUGUST	
31,	
2009	\$ 100
2010	100

2011	150
	\$ 350

Each  
fiscal year  
of  
extended  
term \$ 150

The license agreement with the son of the Vice-Chairman also contains an option to purchase the organizational channel business at specified periods. In fiscal 2003, we issued a separate non-exclusive license agreement for certain intellectual property to the same son of the Vice-Chairman. The Company

received a nominal amount to establish the license agreement and license payments required to be paid under terms of this license agreement were insignificant during fiscal years 2008, 2007, and 2006.

As part of a preferred stock offering to a private investor, an affiliate of the investor, who was then a director of the Company, was named as the Chairman of the Board of Directors and was later elected as CEO. This individual continues to serve as our Chairman of the Board and CEO at August 31, 2008. In addition, one of the affiliates of the private investor was named to our Board of Directors and continues to serve in that position. In connection with the preferred stock offering, we paid an affiliate of the investor \$0.1 million and \$0.2 million during the years ended August 31, 2007 and 2006 for monitoring fees, which were reduced by redemptions of outstanding Series A preferred stock. Following the redemption of all remaining preferred stock in fiscal 2007, we do not have any further obligation to pay monitoring fees to the affiliate of the investor.

Item 9A. Controls and Procedures

a) Evaluation of Disclosure Controls and Procedures (as Restated)

An evaluation was conducted under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of 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, our Chief Executive Officer and our Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were not effective.

b) Management's Report on Internal Control Over Financial Reporting (as Restated)

The management of Franklin Covey Co. is responsible for establishing and maintaining adequate internal control over financial reporting for the Company (including its consolidated subsidiaries) and all related information appearing in the Company's annual report on Form 10-K. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those policies and procedures that:

1. pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
2. provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with the authorization of management and/or of our Board of Directors; and
3. provide reasonable assurance regarding the prevention or timely detection of any unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness in future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of August 31, 2008 using the criteria set forth in Internal Control—Integrated Framework as issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based upon that evaluation, we originally concluded that our internal control over financial reporting was effective. We have subsequently determined that material weaknesses existed as of August 31, 2008 in our Japan subsidiary that relate to: i) the lack of controls to ensure that product sales with non-standard shipping terms are properly approved and accounted for and ii) the calculation of inventory reserves which was not designed in a manner to evaluate obsolescence at the individual product level. As a result of these material weaknesses, errors occurred in our financial reporting.

Our independent registered public accounting firm, KPMG LLP, has audited the consolidated financial statements included in this annual report on Form 10-K/A and, as part of their audit, has issued an audit report, included herein, on the effectiveness of our internal control over financial reporting. Their reports are included in Item 8 of this Report

on Form 10-K/A.

c) Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f)) during the fourth quarter ended August 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

d) Remediation Plan for Material Weaknesses

As of January 13, 2009 we have designed and implemented controls to require the approval of non-standard shipping terms on product sales and to require the approval of the inventory reserve calculation in Japan.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) List of documents filed as part of this report:

1. Financial Statements. The consolidated financial statements of the Company and Report of Independent Registered Public Accounting Firm thereon included in the Annual Report to Shareholders on Form 10-K for the year ended August 31, 2008, are as follows:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at August 31, 2008 and 2007

Consolidated Income Statements and Statements of Comprehensive Income for the years ended August 31, 2008, 2007, and 2006

Consolidated Statements of Shareholders' Equity for the years ended August 31, 2008, 2007, and 2006

Consolidated Statements of Cash Flows for the years ended August 31, 2008, 2007, and 2006

Notes to Consolidated Financial Statements

2. Financial Statement Schedules.

Schedule II – Valuation and Qualifying Accounts and Reserves (Filed as Exhibit 99.2 to this Report on Form 10-K).

Other financial statement schedules are omitted because they are not required or applicable, or the required information is shown in the financial statements or notes thereto, or contained in this report.

3. Exhibit List.

Exhibit No.	Exhibit	Incorporated By Reference	Filed Herewith
2.1	Master Asset Purchase Agreement between Franklin Covey Products, LLC and Franklin Covey Co. dated May 22, 2008	(19)	
2.2	Amendment to Master Asset Purchase Agreement between Franklin Covey Products, LLC and Franklin Covey Co. dated May 22, 2008	(20)	
3.1	Articles of Restatement dated March 4, 2005 amending and restating the Company's Articles of Incorporation	(8)	
3.2		(12)	

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Amendment to Amended and Restated Articles of  
Incorporation of Franklin Covey (Appendix C)

3.3	Amended and Restated Bylaws of the Registrant	(1)
4.1	Specimen Certificate of the Registrant's Common Stock, par value \$.05 per share	(2)
4.2	Stockholder Agreements, dated May 11, 1999 and June 2, 1999	(5)
4.3	Registration Rights Agreement, dated June 2, 1999	(5)
4.4	Restated Shareholders Agreement, dated as of March 8, 2005, between the Company and Knowledge Capital Investment Group	(8)
4.5	Restated Registration Rights Agreement, dated as of March 8, 2005, between the Company and Knowledge Capital Investment Group	(8)
10.1*	Amended and Restated 1992 Employee Stock Purchase Plan	(3)
10.2*	Amended and Restated 2000 Employee Stock Purchase Plan	(6)
10.3*	Amended and Restated 2004 Employee Stock Purchase Plan	(15)
10.4*	Amended and Restated 1992 Stock Incentive Plan	(4)
10.5*	First Amendment to Amended and Restated 1992 Stock Incentive Plan	(16)
10.6*	Third Amendment to Amended and Restated 1992 Stock Incentive Plan	(17)
10.7*	Fifth Amendment to the Franklin Covey Co. Amended and Restated 1992 Stock Incentive Plan (Appendix A)	(12)
10.8*	Forms of Nonstatutory Stock Options	(1)
10.9*	Amended and Restated Option Agreement, dated December 8, 2004, by and between the Company and Robert A. Whitman	(7)
10.10*	Agreement for the Issuance of Restricted Shares, dated as of December 8, 2004, by and between Robert A. Whitman and the Company	(7)

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- 10.11 Restated Monitoring Agreement, dated as of March 8, 2005, between the Company and Hampstead Interests, LP (8)
- 10.12 Warrant, dated March 8, 2005, to purchase 5,913,402 shares of Common Stock issued by the Company to Knowledge Capital Investment Group (8)
- 10.13 Form of Warrant to purchase shares of Common Stock to be issued by the Company to holders of Series A Preferred Stock other than Knowledge Capital Investment Group (8)
- 10.14\* Franklin Covey Co. 2004 Non-Employee Directors' Stock Incentive Plan (9)
- 10.15\* The first amendment to the Franklin Covey Co. 2004 Non-Employee Director Stock Incentive Plan, (Appendix B) (12)
- 10.16\* Form of Option Agreement for the 2004 Non-Employee Directors Stock Incentive Plan (9)
- 10.17\* Form of Restricted Stock Agreement for the 2004 Non-Employees Directors Stock Incentive Plan (9)
- 10.18 Master Lease Agreement between Franklin SaltLake LLC (Landlord) Franklin Development Corporation (Tenant) (10)
- 10.19 Purchase and Sale Agreement and Escrow Instructions between Levy Affiliated Holdings, LLC (Buyer) and Franklin Development Corporation (Seller) and Amendments (10)
- 10.20 Redemption Extension Voting Agreement between Franklin Covey Co. and Knowledge Capital Investment Group, dated October 20, 2005 (11)
- 10.21 Agreement for Information Technology Services between each of Franklin Covey Co. Electronic Data Systems Corporation, and EDS Information Services LLC, dated April 1, 2001 (13)
- 10.22 Additional Services Addendum No. 1 to Agreement for Information Technology Services between each of Franklin Covey Co. Electronic Data Systems Corporation, and EDS Information Services LLC, dated June 30, 2001 (13)
- 10.23 (13)



- Amendment No. 2 to Agreement for Information Technology Services between each of Franklin Covey Co. Electronic Data Systems Corporation, and EDS Information Services LLC, dated June 30, 2001
- 10.24 Amendment No. 6 to the Agreement for Information Technology Services between each of Franklin Covey Co., Electronic Data Systems Corporation, and EDS Information Services L.L.C. dated April 1, 2006 (14)
- 10.25 Revolving Line of Credit Agreement (\$18,000,000) by and between JPMorgan Chase Bank, N.A. and Franklin Covey Co. dated March 14, 2007 (18)
- 10.26 Secured Promissory Note between JPMorgan Chase Bank, N.A. and Franklin Covey Co. dated March 14, 2007 (18)
- 10.27 Security Agreement between Franklin Covey Co., Franklin Covey Printing, Inc., Franklin Development Corporation, Franklin Covey Travel, Inc., Franklin Covey Catalog Sales, Inc., Franklin Covey Client Sales, Inc., Franklin Covey Product Sales, Inc., Franklin Covey Services LLC, Franklin Covey Marketing, LTD., and JPMorgan Chase Bank, N.A. and Zions First National Bank, dated March 14, 2007 (18)
- 10.28 Repayment Guaranty between Franklin Covey Co., Franklin Covey Printing, Inc., Franklin Development Corporation, Franklin Covey Travel, Inc., Franklin Covey Catalog Sales, Inc., Franklin Covey Client Sales, Inc., Franklin Covey Product Sales, Inc., Franklin Covey Services LLC, Franklin Covey Marketing, LTD., and JPMorgan Chase Bank N.A., dated March 14, 2007 (18)
- 10.29 Pledge and Security Agreement between Franklin Covey Co. and JPMorgan Chase Bank, N.A. and Zions First National Bank, dated March 14, 2007 (18)
- 10.30 Revolving Line of Credit Agreement (\$7,000,000) by and between Zions First National Bank and Franklin Covey Co. dated March 14, 2007 (18)
- 10.31 Secured Promissory Note between Zions First National Bank and Franklin Covey Co. dated March 14, 2007 (18)
- 10.32 Repayment Guaranty between Franklin Covey Co., Franklin Covey Printing, Inc., Franklin Development Corporation, Franklin Covey Travel, Inc., Franklin Covey Catalog Sales, Inc., Franklin Covey Client Sales, Inc., Franklin Covey Product Sales, Inc., Franklin Covey

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Services LLC, Franklin Covey Marketing, LTD., and  
Zions First National Bank, dated March 14, 2007

10.33	Credit Agreement between Franklin Covey Canada, Ltd. and Toronto-Dominion Bank dated February 19, 2007	(18)	
10.34	Master License Agreement between Franklin Covey Co. and Franklin Covey Products, LLC	(21)	
10.35	Supply Agreement between Franklin Covey Products, LLC and Franklin Covey Product Sales, Inc.	(21)	
10.36	Master Shared Services Agreement between The Franklin Covey Products Companies and the Shared Services Companies	(21)	
10.37	Amended and Restated Operating Agreement of Franklin Covey Products, LLC	(21)	
10.38	Sublease Agreement between Franklin Development Corporation and Franklin Covey Products, LLC	(21)	
10.39	Sub-Sublease Agreement between Franklin Covey Co. and Franklin Covey Products, LLC	(21)	
10.40	Loan Modification Agreement between Franklin Covey Co. and JPMorgan Chase Bank, N.A. dated July 8, 2008	(21)	
10.41	General Services Agreement between Franklin Covey Co. and Electronic Data Systems (EDS) dated October 27, 2008	(22)	
21	Subsidiaries of the Registrant	(22)	
23	Consent of Independent Registered Public Accounting Firm		ée
31.1	Rule 13a-14(a) Certification of the Chief Executive Officer		ée
31.2	Rule 13a-14(a) Certification of the Chief Financial Officer		ée
32	Section 1350 Certifications		ée
99.1	Report of KPMG LLP, Independent Registered Public Accounting Firm, on Consolidated Financial Statement Schedule for the years ended August 31, 2008, 2007, and 2006	(22)	
99.2		(22)	

Financial Statement Schedule II – Valuation and  
Qualifying Accounts and Reserves.

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- (1) Incorporated by reference to Registration Statement on Form S-1 filed with the Commission on April 17, 1992, Registration No. 33-47283.
- (2) Incorporated by reference to Amendment No. 1 to Registration Statement on Form S-1 filed with the Commission on May 26, 1992, Registration No. 33-47283.
- (3) Incorporated by reference to Report on Form 10-K filed November 27, 1992, for the year ended August 31, 1992.\*\*
- (4) Incorporated by reference to Registration Statement on Form S-1 filed with the Commission on January 3, 1994, Registration No. 33-73728.
- (5) Incorporated by reference to Schedule 13D (CUSIP No. 534691090 as filed with the Commission on June 14, 1999). Registration No. 005-43123.
- (6) Incorporated by reference to Report on Form S-8 filed with the Commission on May 31, 2000, Registration No. 333-38172.
- (7) Incorporated by reference to Report on Form 8-K filed with the Commission on December 14, 2005.\*\*
  - (8) Incorporated by reference to Report on Form 8-K filed with the Commission on March 10, 2005.\*\*
  - (9) Incorporated by reference to Report on Form 8-K filed with the Commission on March 25, 2005.\*\*
  - (10) Incorporated by reference to Report on Form 8-K filed with the Commission on June 27, 2005.\*\*
  - (11) Incorporated by reference to Report on Form 8-K filed with the Commission on October 24, 2005.\*\*
- (12) Incorporated by reference to Definitive Proxy Statement on Form DEF 14A filed with the Commission on December 12, 2005.\*\*
- (13) Incorporated by reference to Report on Form 10-Q filed July 10, 2001, for the quarter ended May 26, 2001.\*\*
  - (14) Incorporated by reference to Report on Form 8-K filed with the Commission on April 5, 2006.\*\*
- (15) Incorporated by reference to Definitive Proxy Statement on Form DEF 14A filed with the Commission on February 1, 2005.\*\*
- (16) Incorporated by reference to Definitive Proxy Statement on Form DEF 14A dated November 5, 1993.\*\*
- (17) Incorporated by reference to Definitive Proxy Statement on Form DEF 14A filed with the Commission on December 3, 1999.\*\*
  - (18) Incorporated by reference to Report on Form 8-K filed with the Commission on March 19, 2007.\*\*
  - (19) Incorporated by reference to Report on Form 8-K/A filed with the Commission on May 29, 2008.\*\*
- (20) Incorporated by reference to Report on Form 10-Q filed July 10, 2008, for the Quarter ended May 31, 2008.\*\*
  - (21) Incorporated by reference to Report on Form 8-K filed with the Commission on July 11, 2008.\*\*
- (22) Incorporated by reference to Report on Form 10-K filed with the Commission on November 14, 2008.\*\*

éé Filed herewith and attached to this report.

\* Indicates a management contract or compensatory plan or agreement.

\*\* Registration No. 001-11107.

SIGNATURES

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

FRANKLIN COVEY CO.

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

