FranklinCovey™

2000 Annual Report Proxy Statement

PURPOSE

To help individuals and organizations be measurably more effective.

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Financial Highlights

AUGUST 31,	2000	1999	1998	1997	1996
In thousands, except share data					
Income Statement Data					
Sales	$585,199	$554,923	$546,612	$433,272	$332,006
Net Income	(4,409)	(8,772)	40,058	38,865	34,239
Income (Loss) Available to Common Shareholders	(12,414)	(10,647)	40,058	38,865	34,239
Diluted Earnings Per Share	(0.61)	(0.51)	1.62	1.76	1.53
Balance Sheet Data					
Total Assets	$592,479	$623,303	$597,277	$572,187	$268,445
Long-Term Obligations	65,790	6,543	126,413	94,144	5,500
Shareholders' Equity	374,053	378,434	341,654	355,405	231,835

Common Stock Price Range	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Fiscal 2000				
High	$ 8 11/16	$10 3/16	$11 3/16	$ 8 1/4
Low	7	6 13/16	6 7/8	6 3/8
Close (at quarter end)	7 5/16	8 3/16	7 3/4	6 5/8
Fiscal 1999				
High	$ 20 3/16	$18 3/4	$ 13 1/16	$ 9 1/2
Low	17 1/2	11 7/8	9	6 1/16
Close (at quarter end)	18 3/4	11 15/16	9 3/4	7 3/4

To our Shareholders:

During this past year, we have reviewed Franklin Covey's overall business piece by piece. We have challenged business models, analyzed the Company's profitability by sku, channel and customer segment, reorganized key business units, and determined the focus of the business going forward. As we begin our new fiscal year, we would like to update you on the business review process, and to provide you with an overview of our business plan and overall financial goals for fiscal year 2001.

Business Plan Details

In last year's annual report, we used a mountain climbing metaphor to outline an overall plan for turning the Company around. Since then, we have spent thousands of hours reviewing business units' plans, evaluating alternative strategies, meeting with customers and assembling and reviewing customer information, establishing key priorities, and recruiting individuals for key positions (from inside and outside the Company). Utilizing the same mountain climbing metaphor which has become part of our internal language, we have established a detailed "climbing" plan to allow us to significantly increase our ability to meet customer needs, address negative operating trends and build a foundation for significantly increasing profitability and growth. This plan commits us to the following major objectives, identified as "camps":

- Base Camp: To simplify and focus the Company's business and eliminate excess activities and costs
- Camp 1: To significantly and sustainably increase our profitability
- Camp 2: To free-up a substantial amount of capital to support our substantial investments in new solutions and in growth
- Camp 3: To significantly expand our ability to reach individuals and organizations and to provide them with solutions which will help them to become measurably more effective... thereby increasing the strength and defensibility of our position in the marketplace
- Camp 4: To reestablish Franklin Covey as an exciting, highly relevant growth company.

The combined impact of these initiatives is expected to increase revenues and EBITDA in fiscal year 2001 compared to fiscal year 2000 by approximately $30 million and $20 million, respectively.

A brief overview of the plan for each camp follows:

Base Camp: To simplify our business, eliminate excess costs and to prepare for the climb ahead, we have: (1) reduced the complexity of our business to put our full focus on a few key strategic and operational initiatives; (2) attacked and eliminated excess operating costs; (3) scaled our staffing levels to match our objectives; and (4) aligned the focus of management with our shareholders.

- **Simplifying the Business:**
  - Eliminating unprofitable and non-strategic sku's. During fiscal year 2000, we eliminated more than 5,000 unprofitable or non-strategic sku's from our product and training offerings worldwide, and nearly 900, or 39 percent, of our sku's in the United States. To first test and assess the impact of this sku reduction on our customers and store operations, we implemented the sku reduction and re-merchandised the remaining sku's in selected stores during May this past year. The results were extremely encouraging. The managers of these stores reported very few customer concerns (most will be addressed by the introduction of the new Forms Wizard), better merchandising of the remaining sku's, and a better store "feel". Sales in these stores remained as strong or stronger than they were before, and margins improved. As a result, we implemented this effort throughout all our retail stores. We expect this effort to reduce development, marketing, purchasing, manufacturing and distribution costs relating to unprofitable products, and improve the average gross margins on our remaining products and offerings.
  - Selling or closing non-strategic business units. Over the past six months, we completed the sale or closure of certain non-strategic operations. Specifically, our Publisher's Press commercial printing operation was sold, and we closed our binder manufacturing and binder repair operations. Other non-strategic operations have been identified as part of our business review process and we will be considering alternatives for these operations over the next few months.
  - Outsourcing or eliminating functions which are not central to our "core competency." To focus our full effort on those elements of our business which are our core competencies, we have significantly reduced the scope of many of our central services activities, and are considering the possible outsourcing of a portion of our information systems' and technology solutions' operations. We are extremely appreciative of the contributions, loyalty, and hard work of our associates in these areas. If a decision is ultimately made to outsource these operations, our goal will be to continue our close relationship with the individuals in these areas, either directly or through a contract with a quality outsourcing partner.

- Consolidating related organizational units. To reduce organizational complexity and increase the speed and effectiveness of our solutions-development efforts, all of our "content" areas (innovation, profiling, on-line learning, on-line content, etc.) and tools' development activities (paper, binders, accessories, handheld devices, desktop software, etc.) are now organized under one unit known as "Solutions." Other related units will also be combined in the near future.

- **Reducing Operating Costs and Eliminating "Dumb Things":**
  - Reducing Operating Costs. We have completed the initial stages of an ongoing plan to eliminate excess costs, purchases and waste throughout the Company. We have already identified significant opportunities for operating savings in travel, communications and postage expenses, and expect to identify and implement additional savings.
  - Eliminating "Dumb Things". During the past year, associates within each operating unit were asked to identify "dumb things we do," activities which they believed should be addressed and resolved. Substantially all of these issues have been systematically addressed and resolved during the course of the various business reviews.

- **Scaling Employment Levels to Match Our Business Focus:**

  Last fall, we announced that our restructuring efforts would likely result in the elimination of approximately 600 positions. Approximately 325 positions were eliminated at that time through the "meadow" program. As business plans and budgets were finalized and a refined focus for the Company was established, essentially all of the remaining 275-300 positions have been identified and eliminated. Though the impact of these changes on those affected has been softened economically through the "meadow" program which has helped almost all to find positions in other organizations, it has still been difficult for everyone involved. We are glad to have it behind us. To ensure that we do not repeat this process in the future, we have taken steps to ensure that the activities in which we are involved are truly creating value, that we hold ourselves to a high level of performance, and that any new positions added are truly needed.

- **Aligning Focus of Management with Shareholders**
  - Executive Stock Program (ESP). Last spring, we put together a program that establishes minimum ownership requirements for all of our Leadership Team – our Executive Vice Presidents and their 110 direct reports. These requirements were adopted to sharpen the alignment of the interests of these top managers with the interests of you, our shareholders. To assist our leaders in fulfilling these commitments, we worked with our bankers, Zions Bank and Bank One, to help the management team to procure full-recourse personal loans to purchase the Company's shares on the open market. More than 160 of those managers and others within the Company took advantage of the ESP and purchased 3.8 million shares through loans of more than $33 million in aggregate.
  - Reduction of outstanding options. At the same time, we had too many stock options outstanding, many were in the wrong hands (many were held by former employees or associates no longer in leadership positions) and too few were in the hands of our key leaders, or were at prices which made them unmotivating. We offered to repurchase options to decrease the number of options outstanding, buying back two-thirds of the outstanding options. As a condition of participation in the ESP, our leaders were required to tender their underwater options. With our key leaders having a direct financial stake in the Company through the ESP or other stock ownership, we believe their interests are now closely aligned with those of our shareholders. At the same time the option overhang has been reduced significantly.

Camp 1: Significantly and Sustainably Increasing Our Profitability Over the Next 3 Years.

We plan to arrest, and reverse, declining operating trends (i.e. gross margin erosion, product mix and channel shifts, etc.), and significantly increase our profitability this year, and each year over the next three years. We expect to accomplish this by focusing on improving certain high leverage business models, including driving more revenue through our current infrastructure, and substantially reducing inventory adjustments and write-offs.

- **<u>Improving Business Models:</u>** We have spent a significant amount of time reviewing each of our business units, understanding their "value-drivers" and business models, and identifying those few activities which, if accomplished, would materially improve Franklin Covey's overall profitability. We have organized to ensure that these few high-leverage activities are accomplished. Our key commitments are as follows:
  - <u>To increase our retail store conversion rate.</u> Approximately 10 million shoppers visit our retail stores each year. On average, a third of them make a purchase. However, there is a significant difference in the conversion rate between the top half of our stores and those that are in the bottom half. Our focus will be on increasing the sales effectiveness of all stores, but with a particular emphasis on those in the bottom half. By incrementally increasing our average conversion rate, the profitability of our retail stores could increase EBITDA significantly. In April this past year, we began an 11-store test in one district to determine the extent to which a combination of training and focus could improve our conversion rates. The results were very encouraging. One important factor contributing to this improvement is the elimination of the non-selling tasks required of our managers, assistant managers and sales associates. We are now rolling this program out in all of our retail store districts.
  - <u>To increase the profitability of the solutions we sell.</u> Over the past years, our gross margins have been squeezed by a combination of factors, including: (1) a shift in the mix of what we sell toward lower-margin technology tools; (2) a shift in the channels through which we sell certain products, with a significant increase in sales through our lower-margin wholesale relationships; and (3) a proliferation of new sku's, many of which have not been profitable. Through a combination of eliminating unprofitable sku's, making pricing changes for hundreds of additional sku's, controlling manufacturing costs and emphasizing pricing integrity, we expect to arrest the declining gross margin trend and measurably increase the profitability of the solutions we sell during fiscal year 2001.
  - <u>To increase the revenue generated by the average experienced Organizational Solutions client partner.</u> Over the past few years, the gap between the sales performance of the top client partners in our Organizational Solutions Group and that of our <u>average</u> client partner has increased significantly. Through a combination of: (1) focused training of existing client partners; (2) recruitment of new client partners with proven track records; (3) a strong business development organization; (4) a new sales compensation system; (5) national sales support for accounts with large potential; (6) a focus on increasing our business with existing customers through solutions-selling; and (7) the leadership of strong regional Managing Directors and a new National Vice President of Sales, we expect to see a significant increase in the average revenue per client partner during fiscal year 2001.
  - <u>To Increase the Profitability of Public Programs.</u> The profitability of our Public Programs' business has been on the decline for the past several years. This has resulted from a combination of: (1) the increasing cost of generating clients from direct mail programs; (2) the increasing cost of putting on public programs; and (3) a reduction in the average number of participants attending our average public program. During the fourth quarter of fiscal year 2000, we began a significant transformation of this business by focusing on: (1) increasing the effectiveness of our direct marketing programs; (2) cutting back the number of public programs scheduled, in order to increase the number of participants in each program; (3) reducing the costs of putting on a program, and (4) increasing the price of certain programs to reflect their true value in the marketplace. These efforts have already began bearing fruit, as the number of participants per program has increased significantly. The new pricing seems to be well-received in the marketplace and the effectiveness of our direct marketing is increasing.

- To increase the profitability of our Handheld Devices business. Personal Digital Assistants (PDA's), like the PALM® and iPAQ™ Pocket PC®, have become an increasingly important part of our business. The introduction of these devices has grown our market and created opportunities to capture new users into our channels. We welcome this. Franklin Covey is committed to being the expert in helping people to be productive and effective in the new digital age, and to offering the latest devices as part of its productivity system to meet these needs. However, we don't want to be just a seller of devices (whether paper or electronic). We always want to add intellectual property value to everything we offer, and to sell a full solution. To address these needs, we have assembled a software "value suite" which has been loaded onto all of the PDA devices we sell. This suite includes: our Franklin Planning software (as always); some of Franklin Covey's best selling books (digital); together with more than 20 of the most popular and useful applications which have been developed for PDA's. In addition, we expect to add relevant training offerings to enable individuals to get more out of their productivity system. We believe that the inclusion of software and training with PDA's we sell will both set us apart from the crowd, and generate greater value for both our customers and shareholders.
- To significantly improve our knowledge of, and ability to reach our customers. One of our greatest assets is the size, quality and loyalty of our customer base. Historically, however, our Company has not done a good job of knowing our customers' names, needs, preferences and purchasing behaviors. During fiscal year 2000 our Customer Relationship Management (CRM) and database marketing teams made good progress in building the foundation for improving this effort. During fiscal year 2001 we expect both to continue our investment in building our CRM capabilities, and to utilize those capabilities already established to strengthen our relationship with our customers and drive increases in revenue and profitability.
- To strengthen Premier's strategic positioning and profitability model. Premier has grown rapidly and profitably over the past several years. During fiscal year 2000, Premier delivered its agendas to approximately 17 million students in more than 30,000 schools. During fiscal year 2000, Premier tested the Student Achievement Workshop Program (S.A.W.) (training designed to increase student achievement). Utilizing principles from *7 Habits for Highly Effective Teens,* the S.A.W. program test has been received enthusiastically by schools, school districts, teachers, students, and parents. During fiscal year 2001, Premier plans to introduce the S.A.W. program into a number of selected schools. We believe this will increase the profitability of Premier's business model, and help to reposition Premier as not only the quality provider of productivity tools, but as a partner in increasing student achievement within its client schools.

- **Reducing our inventory write-offs by at least $2.5 million through improved supply chain management:** Over the past three years, the Company incurred substantial inventory write-offs due to inventory control problems. Inventory levels relative to sales also increased. Through daily inventory tracking and weekly inventory reconciliation, unplanned inventory adjustments have been greatly reduced. Through new supply chain leadership and processes, we believe that inventory obsolescence, inventory levels, and cost of goods sold can be meaningfully improved.

Camp 2: Free Up Capital to Support Growth. Through fiscal years 2001 and 2002, we plan to free-up and profitably reinvest a significant amount of capital currently tied-up in inventories, receivables and property, plant and equipment. We have already begun this process through several initiatives, including:

- **Reducing Inventory Levels:** Implementing the "Sku Optimization Plan", managing the life-cycle of sku's, increasing our inventory terms, and improving our supply chain processes, should allow us to increase our inventory turns sufficiently that, over the next twelve months, we will require less inventory to support our current level of sales.
- **Reducing Receivables:** We also plan to reduce the level of receivables necessary to support current sales levels through the implementation of better front-end and back-end processes. Since this focus began in the spring of this past year, DSO (Days Sales Outstanding) on corporate credit accounts has dropped from 85 days to 50 days.

- **Re-deploying Capital Invested in Property, Plant & Equipment:** The Company currently has a substantial amount of capital invested in property, buildings and equipment. The value of these assets is increasing at a rate lower than our cost of capital. As a result, our investment in these assets is eroding shareholder value. To remedy this, we will be considering alternatives for reinvesting the capital currently tied up in these assets into higher-yielding investments.

Camp 3: To Establish a Strong Defensible Market Position for Franklin Covey in our Chosen Markets by 2003.

Much of Franklin Covey's past success can be traced to its ability to: (1) combine relevant, "best-in-class" content, with training and implementation tools, to help individuals and organizations achieve meaningful change; and (2) effectively and powerfully bring its "solutions" to the market through its own strong sales and distribution channels. The Franklin Planner, The 7 Habits of Highly Effective People, and Premier School Agendas are all "blockbuster" examples of the successful implementation of this formula.

Advances in technology and changing customer needs, however, are changing the ways in which people work and communicate. The productivity tools they use, the ways in which people learn, and the channels through which information and learning are distributed are changing rapidly. The fundamental principles underlying Franklin Covey's content are more relevant today than ever. Franklin Covey must translate its historical core competencies into leadership in the new digital world.

To meet the unmet needs of our customers, and firmly establish Franklin Covey's position of strength, relevance and leadership in the new marketplace, our focus will be on:

- <u>Creating new solutions</u>...which will combine best-in-class content and principles (ours and new relevant content from others), learning processes (including profiling and measurement); and integrated and synchronized implementation tools (including <u>www.franklincoveyplanner.com</u>; handheld devices; paper planners; and desktop software) to provide individuals and organizations with the knowledge, skills, and tools for achieving measurable gains in productivity and effectiveness in the new digital age. We expect to introduce the first of these new solutions under the umbrella of Productivity in the Digital Age during the second quarter of fiscal year 2001. We are excited about this new focus. While we expect that each of these new solutions will go through a period of testing and refinement, they are expected to contribute meaningfully to the growth and profitability of the Company over the coming years.
- <u>Selling these new solutions effectively through our existing channels:</u> We are working with each of our existing channels to ensure that we leverage their strengths and capabilities in introducing these new solutions to the marketplace. As part of this effort, we have added new training centers to 12 of our existing stores.
- <u>Leveraging our strengths:</u> We are committed to leveraging our strong brands, best-in-class content, large and loyal customer base, and other assets to form alliances and partnerships which will accelerate our development of new strengths for addressing customers' needs.

Camp 4: To Establish Franklin Covey as a Company which Grows Rapidly, Sustainably and Profitably.

The actions described in Camps 1 and 2 above will reduce costs, improve profitability and free-up capital for reinvestment, and will be an important thrust during fiscal year 2001. However, our real objective is to reestablish Franklin Covey as an organization which: (1) helps large numbers of individuals to meaningfully and measurably improve their lives; (2) helps large numbers of organizations to become significantly and measurably more effective; and (3) is able to grow rapidly, sustainably and profitably.

To reach this sustained growth, we expect to:

- Add measurably to our retail store base in the U.S.
- Grow our domestic Organizational Solutions sales force
- Grow our Premier School Agendas client base
- Increase our eCommerce/Catalog revenue
- Grow in our "A" countries (Canada, the U.K., Japan, and Mexico)
- Grow revenues through non-Franklin-Covey channels

Getting it Done

We are committed to meeting our commitments. To ensure that the critical initiatives underpinning the achievement of each of these “camps” are accomplished, we have prioritized each of the key initiatives as to importance and urgency. In addition, a significant portion of the “performance pay” for initiative leaders and associates will be based on the achievement of these key initiatives. All associates within a division have “cascading” goals which tie to the major objectives of that division and which are linked directly to their performance pay.

Conclusion

Our business plan commits us to showing a marked turnaround in the Company by the end of the third quarter of this fiscal year 2001, and to making significant progress toward firmly reestablishing and strengthening Franklin Covey’s strategic relevancy in its chosen markets, and its ability to help individuals and organizations to achieve their potential. We are certain that we will have our share of “avalanches” and “bad weather” along the way and progress may sometimes feel slow. We are, however, committed to succeeding in this climb! We are confident that as we reach the aforementioned “camps” the markets will recognize Franklin Covey’s true value. We gratefully acknowledge that many of you have held firm with us through these many changes and appreciate your willingness to continue as shareholders.

Robert A. Whitman
Chairman of the Board of Directors

Hyrum W Smith

Hyrum W. Smith
Vice Chairman of the Board of Directors

Stephen R. Covey

Stephen R. Covey
Vice Chairman of the Board of Directors

Form 10-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☑ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED AUGUST 31, 2000

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

FRANKLIN COVEY CO.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

The aggregate market value of the Common Stock held by non-affiliates of the Registrant on November 1, 2000, based upon the closing sale price of the Common Stock of $8.25 per share on that date, was approximately $140,803,583. Shares of the Common Stock held by each officer and director and by each person who may be deemed to be an affiliate of the Registrant have been excluded.

As of November 1, 2000, the Registrant had 20,643,182 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the Registrant's Proxy Statement for the Registrant's Annual Meeting of Shareholders, which is scheduled to be held on January 12, 2001, are incorporated by reference in Part III of this Form 10-K.

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PART I

Item 1. Business

GENERAL

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

One of the mainstay staple tools that assists clients in implementing effectiveness training is the Franklin Planning System. The original Franklin Planner consists of a paper-based, two-page per day Franklin Covey planning system combined with a seven-ring binder, a variety of planning aids, weekly, monthly and annual calendars and personal management sections. The Franklin Planner can also be purchased in one-page per day or two-page per week versions. The Company offers various forms and accessories that allow users to expand and customize their Franklin Planner. Franklin Covey markets the Franklin Planner and accessory products directly to organizations, through its catalog, its retail stores, its e-commerce Internet site at www.franklincovey.com and through third party channels. A significant percentage of the users of the original Franklin Planner continue to purchase a renewal planner each year, creating substantial recurring sales. The Company has also made the Franklin Planning System available in desktop software and as an add-on to handheld organizers, such as the popular PALM® Computing organizer and Compaq's iPAQ™ Pocket PC®. The Company also provides an extension to Microsoft Outlook® that incorporates Franklin Planning productivity principles into the Outlook calendar system. An on-line version of the Franklin Planner has recently been introduced at www.franklincoveyplanner.com that synchronizes voicemail, email, note-taking and calendaring into both the paper-based system and the electronic handheld and desktop versions of the system.

The principles taught in the Company's curriculum have also been published, in many cases, in book and audio tape form. Books sold by the Company include *The 7 Habits of Highly Effective People, Principle-Centered Leadership, First Things First, The 7 Habits of Highly Effective Families, Nature of Leadership* and *Living the 7 Habits,* all by Stephen R. Covey, *The 10 Natural Laws of Time and Life Management* and *What Matters Most* by Hyrum W. Smith, *The Power Principle* by Blaine Lee and *The 7 Habits of Highly Effective Teens,* by Sean Covey. These books, as well as audio tape versions of many of these products, are sold through general retail channels, as well as through the Company's own catalog, its e-commerce web site www.franklincovey.com and its retail stores.

Domestic consumer product sales, consisting primarily of products relating to the Franklin Planning Systems accounted for 52 percent of the Company's sales during the year ended August 31, 2000.

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

1. Franklin Covey consultants provide on-site consulting or training classes for organizations. In these situations, the Franklin Covey consultant can tailor the curriculum to the client's specific business and objectives.
2. The Company also conducts public seminars in more than 200 cities throughout the United States, where organizations can send their employees in smaller

numbers. These public seminars are also marketed directly to the public through the Company's catalog, e-commerce web-site, retail stores, and by direct mail.

3. The Company's programs are also designed to be facilitated by licensed professional trainers and managers in client organizations, reducing dependence on the Company's professional presenters, and creating continuing revenue as participant materials are purchased for trainees by these facilitators.
4. Franklin Covey recently launched a new series of training modules known as, *Productivity in the Digital Age Learning Library.* These learning modules are delivered in five ways: computer-based, on-line, in booklet form, audio or live in new training centers installed in certain retail stores. They are designed for individuals and to aid organizations in delivering Franklin Covey effectiveness principles to individuals throughout their organization. The computer-based training provides on-demand modularized learning and ties with the Company's personal productivity systems which are integrated across various platforms and mediums.

In fiscal 2000, the Company provided products and services to 83 of the Fortune 100 and more than 75 percent of the Fortune 500 companies. The Company also provides its products and services to a number of U.S. and foreign governmental agencies, including the U.S. Department of Defense, as well as numerous educational institutions.

Domestic training and education sales accounted for 37 percent of the Company's sales, representing approximately 560,000 individuals trained, during the year ended August 31, 2000.

The Company also provides products, consulting and training services internationally, either through directly operated offices, or through licensed providers. At August 31, 2000, Franklin Covey had direct operations in Canada, Japan, Australia, New Zealand, Mexico, Belgium, Brazil and the United Kingdom. The Company also had licensed operations in 31 countries. During the year ended August 31, 2000, the total sales of the direct operations and royalties from the licensed operations were $50 million and accounted for 9 percent of total Company revenues.

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

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

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

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

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

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

FRANKLIN COVEY PRODUCTS

An important principle taught in Franklin Covey productivity training is to have only one personal productivity system and to have all of ones information in that system. Based upon that belief for effective time management, the Franklin Planner has been developed as one of the basic tools for implementing the principles of Franklin Covey's time management system. The original Franklin Planner consists of a paper-based Franklin Covey planning system, a binder in which to carry it, various planning aids, weekly, monthly and annual calendars as well as personal management sections. Franklin Covey offers a broad line of renewal planners, forms and binders for the Franklin Planner, which are available in various sizes and styles. For those who lead with technology productivity systems, Franklin Covey also offers a variety of electronic solutions incorporating the same principles as the original Franklin Planner. During the fiscal year ended August 31, 2000, domestic product sales, consisting primarily of the Franklin Planner and related products, amounted to $302.9 million and accounted for 52 percent of Franklin Covey's sales during the period.

Paper Planners. Paper planner renewals are available for the Franklin Planner in five sizes and various styles and consist of daily or weekly formats, appointment schedules, task lists, monthly calendars, daily expense records, daily record of events, and personal management pages for an entire year. Annual Renewal Planners range in price from $19.00 to $50.00. The Master Pack, which includes personal management tabs and pages, a guide to using the planner, a pagefinder and weekly compass cards completes a Franklin Planner. The Master Pack price ranges from $6.00 to $7.00.

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

The Company also recently introduced a version of its Franklin Planner Software that is designed to operate as an extension to Microsoft's Outlook® software. This is intended especially for companies that have already standardized on Microsoft® for group scheduling, but wish to make the Franklin Planning System available to their employees without creating the need to support two separate systems. As this kind of extension proves its value in the market, the Franklin Planner Software extension model will be expanded to other platforms.

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

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

Agendas. Franklin Covey markets through its Premier School Agendas division agendas to schools and school districts in order to help teachers and students enhance the learning process. Premier sold more than 17 million agendas in fiscal 2000, mostly in the United States and Canada. Premier has a direct sales force of 146 sales professionals. An agenda consists of a wire-bound notebook with dated pages to help the student keep track of assignments and due dates, and to encourage regular communication among the student, the parents and the teacher. Most agendas are customized to include the individual school's rules, regulations, administrators and scheduled events.

Binders. Franklin Covey offers binders and accessories (briefcases, portfolios, wallets/purses, etc.) in a variety of materials, styles and Franklin Planner sizes. These materials include high quality leathers, fabrics, synthetics and vinyls in a variety of color and design options. Binder styles include zipper closures, snap closures, and open formats with pocket configurations to accommodate credit cards, business cards, checkbooks and writing instruments. The Company's binder products range in price from $12.95 to $275.00.

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

TRAINING, FACILITATION AND CONSULTING SERVICES

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

Franklin Covey currently employs 115 training consultants in major metropolitan areas of the United States with an additional 18 training consultants outside of the United States. Training consultants are selected from a large number of experienced applicants. These consultants generally have several years of training and/or consulting experience and excellent presentation skills. Once selected, the training consultant goes through a rigorous training program including multiple live presentations. The training program ultimately results in the Company's certification of the consultant. Franklin Covey believes that the caliber of its training consultants has helped build its reputation of providing high quality seminars. The Company's Professional Services Group can also help organizational clients diagnose inefficiencies in their organization and design the core components of a client's organizational solutions. The efforts of the consultants are enhanced by several proprietary consulting tools the Company has designed for their use: Organizational Health Assessment™ ("OHA"), used to assess client needs; the Organizational Effectiveness Cycle™ ("OE-Cycle™"), utilized for organizational diagnosis and redesign; and the Principle-Centered Organizational Change Process™ ("PCOC Process™"), a rigorous methodology for organizational change management.

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

Training and Education Programs. Franklin Covey offers a range of training programs designed to significantly and measurably improve the effectiveness of individuals and organizations. The Company's workshops are oriented to address each of the four levels of leadership needs: personal, interpersonal, managerial and organizational. In addition, the Company believes each of its workshops provides a stimulating and behavior changing experience and frequently generates additional business. During fiscal year 2000, more than 560,000 individuals were trained using the Company's curriculum in its single and multiple-day workshops and seminars.

Franklin Covey's single-day *What Matters Most* workshop competes in the time management industry. This time management seminar is conducted by the Company's training consultants for employees of clients and in public seminars throughout the United States and in many foreign countries. This is the Company's single most popular workshop, generating approximately 29 percent of the training revenue for the Company. The Company offers a number of other single day seminars and workshops including Presentation Advantage™, a seminar helping individuals and organizations make more effective business presentations; Writing Advantage®, a seminar that teaches effective business writing and communication skills; and Project Management™, a seminar designed to help individuals and organizations map and organize complex projects. The Company's training consultants conduct these seminars and workshops for employees of institutional clients and public seminar participants.

Franklin Covey also delivers multiple-day workshops, primarily in the Leadership area. Included in these offerings is its three-day 7 Habits workshop based upon the material presented in *The 7 Habits of Highly Effective People*. The 7 Habits workshop provides the foundation for continued client relationships and generates more business as the Company's content and application tools are delivered deeper into the organization. Additionally, a three-day *4 Roles of Leadership* course is offered, which focuses on the managerial aspects of client needs. Franklin Covey Leadership Week, which management believes is one of the premier leadership programs in the United States, consists of a five-day session focused on materials from Franklin Covey's *The 7 Habits of Highly Effective People* and *The 4 Roles of Leadership* courses. Franklin Covey Leadership Week is reserved for executive level management. As a part of the week's agenda, executive participants design strategies for long-term implementation of the Company's principles and content within their organizations. The courses offered in the leadership area generate over 25 percent of the training revenue for the Company.

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

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

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

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

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

Sales of training and education services for the year ended August 31, 2000 were $214.6 million and accounted for 37 percent of Franklin Covey's total sales during the period.

SALES AND MARKETING

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

	Year Ended August 31, (dollars in thousands)					
	2000		1999		1998	
Domestic Consumer Products	$302,944	51.8%	$264,333	47.6%	$258,973	47.4%
Domestic Training and Education	214,646	36.7	210,621	38.0	207,015	37.9
International	49,995	8.5	50,535	9.1	45,068	8.2
All Other	17,654	3.0	29,434	5.3	35,556	6.5
Total Sales	$585,199	100.0%	$554,923	100.0%	$546,612	100.0%

Domestic Consumer Products Sales. Franklin Covey uses catalogs, retail stores, its own Web site and other distribution channels to market its products to organizations and individuals.

Catalog. Franklin Covey periodically mails catalogs to its clients, including a reference catalog, holiday catalog, catalogs timed to coincide with planner renewals and catalogs related to special events, such as store openings or new product offerings. Catalogs may be targeted to specific geographic areas or user groups as appropriate.

Catalogs are typically printed in full color with an attractive selling presentation highlighting product benefits and features.

Franklin Covey maintains a client service department which clients may call toll-free, 24 hours a day, Monday through Saturday, to inquire about a product or to place an order. Through Franklin Covey's computerized order entry system, client representatives have access to client preferences, prior orders, billings, shipments and other information on a real-time basis. Each of the Company's more than 350 customer service representatives has the authority to immediately solve any client service problem.

Franklin Covey utilizes a zone picking system for processing orders. This system enables the Company to respond rapidly to client orders. Client information stored within the order entry system is also used for additional purposes, including target marketing of specific products to existing clients and site selection for Company retail stores. Franklin Covey believes that its order entry system helps assure client satisfaction through both rapid delivery and accurate order shipment.

Retail Stores. Beginning in late 1985, Franklin Covey began opening retail stores in areas of high client density. The initial stores were generally located in lower traffic destination locations. The Company has since adopted a strategy of locating retail stores in high-traffic retail centers, primarily large shopping malls, to serve existing clients and to attract increased numbers of walk-in clients. Franklin Covey believes that higher costs associated with locating retail stores in these centers have been offset by increased sales in these locations. Franklin Covey's retail stores, which average approximately 2,000 square feet, are stocked almost entirely with Franklin Covey products. The Company's retail stores strategy focuses on providing exceptional client service at the point of sale. Franklin Covey believes this approach increases client satisfaction as well as the frequency and volume of purchases. At August 31, 2000, Franklin Covey had 135 domestic retail stores located in 36 states and the District of Columbia.

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

Franklin Covey believes that its retail stores have a high-end image consistent with its marketing strategy. Franklin Covey's products are generally grouped in sections supporting the different sizes of the Franklin Planner. Products are attractively presented and displayed with an emphasis on integration of related products and accessories. Stores are staffed with a manager, an assistant manager and additional sales personnel as needed. Franklin Covey employees have been trained to use the original Franklin Planner, as well as its various electronic versions, enabling them to assist and advise clients in selection and use of the Company's products. During peak periods, additional personnel are added to promote prompt and courteous client service.

Other Channels. The Company has an alliance with the At-A-Glance® group to sell its products through the category contract stationer channel. At-A-Glance® wholesales other products to contract stationer businesses such as Boise Cascade, Office Express and Staples, which in turn sell office products through catalog order entry systems to businesses and organizations. The Company signed an agreement to have At-A-Glance® represent a selected Franklin Planner product line through this office products channel. The Company believes that additional revenues have more than offset the anticipated lower margins from selling product through this channel.

Domestic Training and Education Sales. Franklin Covey's sales professionals market the Company's training, consulting and measurement services to institutional clients and public seminar clients.

Franklin Covey employs 140 sales professionals located in eight major metropolitan areas throughout the United States and sell training services to institutional clients. Franklin Covey employs an additional 58 sales professionals outside of the United States. Sales professionals must have significant selling experience prior to employment by the Company and are trained and evaluated at Franklin Covey and in their respective sales territories during the first six months of employment. Sales professionals typically call upon persons responsible for corporate employee training, such as corporate training directors or human resource officers. Sales professionals work closely with training consultants in their territories to schedule and tailor seminars and workshops to meet specific objectives of institutional clients.

Franklin Covey also employs 115 training consultants throughout the United States who present institutional and public seminars in their respective territories and an additional 18 training consultants outside of the United States. Training consultants work with sales professionals and institutional clients to incorporate a client's policies and objectives in seminars and present ways that employee goals may be aligned with those of the institution.

Public seminars are planned, implemented and coordinated with training consultants by a staff of marketing and administrative personnel at the Company's corporate offices. These seminars provide training for the general public and are also used as a marketing tool for attracting corporate and other institutional clients. Corporate training directors are often invited to attend public seminars to preview the seminar content prior to engaging Franklin Covey to train in-house employees. Smaller institutional clients often enroll their employees in public seminars when a private seminar is not cost effective. In the public seminars, attendees are also invited to provide names of potential persons and companies who may be interested in Franklin Covey's seminars and products. These referrals are generally used as prospects for Franklin Covey's sales professionals.

The Company markets through its Premier School Agendas division agendas to schools and school districts in order to help teachers and students enhance the learning process. Premier sold more than 17 million agendas in fiscal 2000, mostly in the United States and Canada. Premier has a direct sales force of 146 sales professionals. An agenda consists of a wire-bound notebook with dated pages to help the student keep track of assignments and due dates, and to encourage regular communication among the student, the parents and the teacher. Most agendas are customized to include the individual school's rules, regulations, administrators and scheduled events.

International Operations. The Company provides products, training and printing services internationally through Company-owned and licensed operations. Franklin Covey has Company-owned operations and offices in Australia, Brazil, Belgium, Canada, Japan, Mexico, New Zealand and the United Kingdom. Mainland Europe is represented by an affiliate and agent network. The Company also has licensed operations in Bermuda, Indonesia, Ireland, Korea, Malaysia, India, Egypt, Lebanon, Saudi Arabia, Turkey, UAE, Israel, Estonia, Nigeria, Philippines, Singapore, China, Hong Kong, Taiwan, Thailand, South Africa, Chile, Panama, Argentina, Colombia, Uruguay, Bahamas, Ecuador, Puerto Rico, Venezuela and Trinidad/Tobago. Franklin Covey operates retail operations in Australia, Canada, Japan, Hong Kong, Singapore, Taiwan and Mexico. Franklin Covey's seven most popular books, *The 7 Habits of Highly Effective People, Principle-Centered Leadership, The 10 Natural Laws of Time and Life Management, First Things First, The Power Principle, The 7 Habits of Highly Effective Families* and *The 7 Habits of Highly Effective Teens* are currently published in multiple languages.

The international operations of the Company generated $50.0 million in revenue in the year ended August 31, 2000. Training and education services generated 54 percent of the revenue, consumer product generated 44 percent, and the balance came from publishing activities in Japan. After grossing up royalties from licensed operations to their actual sales level, total sales generated in the international area were $72.1 million.

Other Revenues. Through the acquisition of Publishers Press in December 1994, Franklin Covey acquired greater control over printing of the materials for the Franklin Planner and of other related products. Effective February 28, 2000, the Company sold the commercial printing services of Publishers Press while maintaining its in-house printing capabilities. Publishers Press provided book and commercial printing to clients in the western United States. The commercial printing operations accounted for substantially all of the $17.7 million of Other sales in fiscal year 2000.

STRATEGIC DISTRIBUTION ALLIANCES

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

CLIENTS

Franklin Covey has developed a broad base of institutional and individual clients. The Company has more than 8,000 institutional clients consisting of corporations, governmental agencies, educational institutions and other organizations. The Company believes its products, workshops and seminars encourage strong client loyalty. Employees in each of Franklin Covey's distribution channels focus on providing timely and courteous responses to client requests and inquiries. Institutional clients may choose to receive assistance in designing and developing customized forms, tabs, pagefinders and binders necessary to satisfy specific needs.

COMPETITION

Training. Competition in the performance skills organizational training industry is highly fragmented with few large competitors. Franklin Covey estimates that the industry represents more than $6 billion in annual revenues and that the largest traditional organizational training firms have sales in the $200 million range. Based upon Franklin Covey's fiscal 2000 domestic training and education sales of approximately $214 million, the Company believes it is a leading competitor in the organizational training market. Other significant competitors in the leadership training market are Development Dimensions International, Achieve Global (formerly Zenger Miller), Organizational Dynamics Inc., Provant, Forum Corporation, EPS Solutions and the Center for Creative Leadership.

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

Products. The paper-based time management and personal organization products market is intensely competitive and subject to rapid change. Franklin Covey competes directly with other companies that manufacture and market calendars, planners, personal organizers, appointment books, diaries and related products through retail, mail order and other direct sales channels. In this market, several competitors have widespread name recognition. The Company believes its principal competitors include DayTimer®, At-A-Glance® and Day Runner®. Franklin Covey also competes, to a lesser extent, with companies that market substitutes for paper-based products, such as electronic organizers, software PIMs and handheld computers. The Company's Franklin Planner Software competes directly with numerous other PIMs. Many of Franklin Covey's competitors have significant marketing, product development, financial and other resources. An emerging potential source of competition is the appearance of calendars and event-planning services available at no charge on the Web. There is no indication that the current level of features has proven to be attractive to the traditional planner customer as a stand-alone service, but as these products evolve and improve, they are likely to pose a competitive threat. In response, Franklin Covey intends to combine on-line planning services with PALM® Computing and Compaq's iPAQ™ Pocket PC®, Software, web-based and paper planners to provide a competitive, complete planning solution to its clients.

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

MANUFACTURING AND DISTRIBUTION

The manufacturing and distribution operations of Franklin Covey consist primarily of printing, collating, assembling, packaging, warehousing and shipping components used in connection with the Franklin Covey product line.

Franklin Covey operates its central manufacturing and distribution services out of Salt Lake City. At that location, the Company prints, packages and distributes its products to its worldwide customers. By operating in this fashion, Franklin Covey has gained greater control of production costs, schedules and quality control of printed materials. This has also allowed the Company to develop partner printers, both domestic and international, who can meet the Company's quality standards, thereby facilitating efficient delivery of product in a global market. The Company believes this has positioned it for greater flexibility and growth capacity. Automated production, assembly and material handling equipment are used in the manufacturing process to insure consistent quality of production materials and to control costs and maintain efficiencies.

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

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

TRADEMARKS, COPYRIGHTS AND INTELLECTUAL PROPERTY

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

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

EMPLOYEES

As of August 31, 2000, Franklin Covey had 3,988 full and part-time associates, including 1,491 in sales, marketing and training; 1,597 in customer service and retail; 641 in production operations and distribution; and 259 in administration and support staff. None of Franklin Covey's associates are represented by a union or other collective bargaining group. Management believes that its relations with its associates are good. Franklin Covey does not currently foresee a shortage in qualified personnel needed to operate the Company's business.

Item 2. Properties

Franklin Covey's principal business operations and executive offices are located in Salt Lake City, Utah and Provo, Utah. The Company's Salt Lake City facilities currently consist of seven buildings with approximately 860,000 available square feet, including approximately 551,000 square feet for manufacturing, distribution, and warehousing, and approximately 309,000 square feet for administration. Franklin Covey owns all of the Company's Salt Lake City facilities, subject to mortgages of approximately $2.9 million as of August 31, 2000. The Company's Provo, Utah operations consisted of four buildings located within a fifteen-mile area. As part of its restructuring plan, the Company exited its leased office space located in two of the Provo buildings, totaling approximately 119,000 square feet, during fiscal 2000. The Company entered into a sublease agreement for the majority of the remaining life of the Company's lease obligation on the office space. The sublease agreement specifies base rental rates and requires the subleasee to pay all direct costs incurred by the Company, including taxes and maintenance. The Company occupies all or a portion of the remaining two buildings located in Provo, with total leased space of approximately 54,000 square feet as of August 31, 2000. These two buildings house a call center and additional office space used by certain divisions of the Company. Lease contracts on the Provo buildings terminate intermittently through the year 2009. Also in connection with its restructuring plan, the Company has moved its sales and marketing functions for the training and education business from the Provo facilities to eight leased regional sales offices located in New York, Chicago, Los Angeles, San Francisco, Columbus, Ohio, Dallas, Atlanta, and Washington, D.C. The regional offices were fully operational as of August 31, 2000.

Franklin Covey also currently operates 135 retail stores under operating leases, with remaining terms of up to ten years. Certain of these store leases include provisions for contingent rentals based on a percentage of sales.

In addition, the Company maintains sales, administrative and/or warehouse facilities in or near Salt Lake City; Phoenix; Atlanta; Dallas; Washington, D.C.; and Bellingham, Washington. The Company also has foreign offices and facilities located in Cambridge, Calgary, Ottawa, Tokyo, London, Brussels, Toronto, Vancouver, Montreal, Sydney, Brisbane, Mexico City, Guadalajara, and Monterrey. The Toronto office is company owned, subject to a mortgage of $1.0 million at August 31, 2000. All other international offices are subject to operating leases that expire intermittently through the year 2006. The Company believes its facilities are adequate and suitable for its current business needs.

Item 3. Legal Proceedings

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

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

No matters were submitted to a vote of security holders during the fourth quarter of the year ended August 31, 2000.

PART II

Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Franklin Covey Co. (the "Company") provides integrated learning and performance solutions to organizations and individuals designed to increase productivity and improve skills for leadership, sales, communication, and other areas. Each solution set includes capabilities in training, consulting and assessment, and various application tools available in electronic or paper-based formats. The Company's products and services are available through professional consulting services, public workshops, catalogs, retail stores, and the Internet at www.franklincovey.com and www.franklincoveyplanner.com. The Company recently released a new series of training curricula designed to enhance the productivity of people who regularly use electronic communication tools such as e-mail, voice mail, and the Internet. Each of the modules in the series can be taught in a variety of environments, ranging from classes in the Company's new productivity centers, located in certain retail stores, to computer-based and on-line presentations. These new products are the latest additions to a variety of products and services that include the Company's well known Franklin Planner and the best-selling book, *The 7 Habits of Highly Effective People*.

During the first quarter of fiscal 1999, the Company aligned its operations into the following three Strategic Business Units ("SBUs"):

- Consumer Products
- Training and Education
- International

The Company is currently in the process of restructuring its operations and expects to report financial information under the new structure in fiscal 2001. Although the Company has substantially completed restructuring its operations, the above SBUs represent the primary management measurement tool until the new reporting structure is implemented. The consumer products SBU is responsible for distribution of the Company's products through its retail stores, catalog operations, wholesale channels (including contract stationers), government channels, and the Internet. The training and education SBU, which includes Premier Agendas and personal coaching, is responsible for training, consulting and implementation services, and delivery of products to business, government, and educational institutions. The international SBU is responsible for the delivery of both products and services outside the United States. Other revenue primarily consists of the Company's commercial printing operation, which was sold during fiscal 2000, and the National Institute of Fitness, which was sold during fiscal 1998. In addition, corporate functions, which consist primarily of essential internal support services such as finance, legal, information systems, and manufacturing and distribution, were aligned to support the operational SBUs.

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

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

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

In January 1999, the Company acquired the assets of Khalsa Associates for $2.7 million. Khalsa Associates is a leading sales training company.

Effective April 1, 1998, the Company acquired King Bear, Inc. ("King Bear"), a Tokyo, Japan based company. King Bear, a former Covey licensee, provides leadership and time management training as well as publishing services. The publishing division of King Bear translated and published *The 7 Habits of Highly Effective People* in Japanese. The cash purchase price was $5.3 million with additional contingent payments to be made over the following five years based upon the operating results of King Bear over that same period. During fiscal 2000, the remaining earnout period was canceled in consideration for $0.4 million in cash.

RESTRUCTURING

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

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

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

RESULTS OF OPERATIONS

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

YEAR ENDED AUGUST 31,	2000	1999	1998
Sales	100.0%	100.0%	100.0%
Cost of sales	43.4	43.8	39.1
Gross margin	56.6	56.2	60.9
Operating expenses:			
Selling, general and administrative	46.0	42.4	40.5
Stock option purchase and relocation costs	1.9		
Depreciation and amortization	7.7	7.1	6.1
Restructuring costs	(0.8)	2.9	
Loss on impaired assets		3.0	
Total operating expenses	54.8	55.4	46.6
Income from operations	1.8	0.8	14.3
Interest income	0.3	0.2	0.4
Interest expense	(1.1)	(1.8)	(1.5)
Net interest expense	(0.8)	(1.6)	(1.1)
Income (loss) before provision (benefit) for income taxes and change in accounting principle	1.0	(0.8)	13.2
Provision (benefit) for income taxes	1.7	(0.8)	5.5
(Loss) income before change in accounting principle	(0.7)	(1.6)	7.7
Cumulative effect of change in accounting principle, net of tax			(0.4)
Net (loss) income	(0.7)	(1.6)	7.3
Preferred dividends	(1.4)	(0.3)	
(Loss) income available to common shareholders	**(2.1)%**	**(1.9)%**	**7.3%**
Sales Data:			
Consumer Products	51.8%	48.5%	47.4%
Training and Education	36.7	37.1	37.9
International	8.5	9.1	8.2
Other	3.0	5.3	6.5

FISCAL 2000 COMPARED WITH FISCAL 1999

Sales

The Company's sales, by reportable segment, were as follows (in thousands):

YEAR ENDED AUGUST 31,	2000	1999	1998
Consumer Products	$302,944	$269,285	$258,973
Training and Education	214,646	205,669	207,015
International	49,955	50,513	45,068
Other	17,654	29,456	35,556
	$585,199	$554,923	$546,612

Consumer product sales increased $33.7 million, or 13 percent, compared to the prior year. Increased sales from the Company's retail stores, wholesale channels, and the Internet were partially offset by decreased sales from the catalog, mass markets, and government products channels. Retail store sales increased as a result of 10 new stores and a 13 percent increase in comparable store sales. At August 31, 2000, the Company was operating 135 stores compared to 125 stores at August 31, 1999. Comparable store sales growth during the year was primarily fueled by increased sales of handheld electronic devices, such as the PALM® V™ by PALM®, Inc., bundled with the Company's Franklin Planner™ software, as well as sales of related accessories. Sales of handheld electronic devices and accessories represented a significantly larger percentage of total consumer product sales during fiscal 2000. As the popularity of handheld electronic devices continues to grow, the Company anticipates further sales growth from these devices in future periods. However, future sales growth is dependent upon a number of factors, including the availability of products from manufacturers, changes in technology and consumer preferences, and the introduction of new products from competitors. The Company also had increased sales from its wholesale channels (including the contract stationer channel) primarily due to increased demand from existing sales and marketing agreements, the successful introduction of new products, and the addition of new marketing and distribution agreements. Increased Internet sales were the result of continued changes in general consumer buying habits, ongoing improvements to the Company's electronic commerce infrastructure, and special promotions advertised in the Company's catalogs and on its web site at www.franklincovey.com. Increased sales in these channels were partially offset by decreased sales from the catalog, mass markets and government products channel. The Company's catalog operation continues to be adversely affected by increased Internet sales, which the Company attributes to continuing changes in consumer buying preferences. Although catalog sales declined during fiscal 2000, catalog sales combined with Internet sales increased nine percent compared to the prior year. Sales through the mass-market channel decreased due to the termination of an agreement with a mass-market distributor. Government product sales continued to be adversely affected by uncertainties surrounding the potential closure of GSA depots and service centers.

Training and education sales increased by $9.0 million, or four percent, compared to fiscal 1999. Increased sales from Premier Agendas, sales effectiveness, and leadership programs were partially offset by decreased sales from productivity seminars and personal coaching. Premier Agendas, which provides leadership and productivity solutions to students and others in the education market, increased sales by 20 percent over the prior year. The increase was primarily due to an increase in the number of schools that use Premier's products and services. Increased sales effectiveness revenue was due to new contracts and increased demand for seminars taught by Khalsa Associates, which was acquired by the Company during fiscal 1999. Increased leadership program sales were primarily due to improved organizational sales, especially for custom programs, and related business development program sales. Productivity program sales decreased primarily due to the timing of specialized product orders in the prior year and a decline in public seminar revenues. During fiscal 2000, the Company restructured its public seminar operations, which resulted in marketing and program delivery changes designed to improve public seminar profitability. During fiscal 2000, training sales in general were adversely affected by the relocation of certain sales associates to new regional sales offices. Personal coaching sales were adversely affected by decreased demand for coaching from one of its major clients. In response, the Company entered into a joint venture with American Marketing Systems, Inc., a major customer of the Personal Coaching division, effective September 1, 2000. The new company, Franklin Covey Coaching, LLC, will continue to provide personal coaching services for the Company and other existing clients. The Company anticipates that the new venture will broaden the curriculum and services currently offered in order to grow the personal coaching business over the long-term while maintaining a substantial portion of the Company's earnings from coaching activities in current periods.

International sales decreased $0.6 million, or one percent, compared to the prior year. Increased sales in Canada, Mexico, and Brazil were offset by decreased sales in Australia, Japan, the Middle East, and New Zealand. Sales in Canada increased primarily due to improved training sales resulting from additional sales personnel hired during fiscal 2000 to expand Company operations in Canada. Increased sales in Mexico were primarily due to two new retail stores, increased catalog sales, and the Company purchasing the Mexico licensee and combining its operations with the Company's direct office already established in Mexico. In May 2000, the Company opened a direct office in Brazil and has since recognized increased sales in that country. Prior to May 2000, all sales (primarily product sales) were serviced through the corporate office. Decreased sales performance in Australia was due to decreased training sales at one of Australia's largest customers, reorganization of the sales force, and the timing of speaking engagements by Stephen R. Covey, which increased training sales in the prior year. Sales in Japan decreased due to sales force restructuring and declining book sales. In fiscal 1999, *The 7 Habits of Highly Effective Families* book was released, while no new major publications were released during fiscal 2000. Decreased sales in the Middle East were due to the Company changing its business strategy in the region from a direct office to licensee operations. As a result, the Company receives a royalty based upon a percentage of the licensee's sales rather than recognizing 100 percent of sales generated in the Middle East. Sales decreased in New Zealand due to closure of the New Zealand office during fiscal 2000. Future sales and business activities in New Zealand will be serviced through the Australian office.

Other sales, which consist primarily of the Company's commercial printing and tabbing operations, decreased $11.8 million, or 40 percent, compared to fiscal 1999. The decrease was due to the sale of the commercial printing division of Publishers Press, which was effective February 28, 2000.

Gross Margin

Gross margin consists of sales less cost of sales. The Company's cost of sales includes materials used in the production of planners and related products, assembly and manufacturing labor costs, commissions of training consultants, direct costs of conducting seminars, freight, and certain other overhead costs. Gross margin may be affected by, among other things, prices of materials, labor rates, product mix, changes in product discount levels, production efficiency, training consultant commissions, and freight costs. Gross margin was 56.6 percent of sales compared to 56.2 percent in fiscal 1999. The Company's gross margin improved primarily due to product write-offs related to the restructuring plan which were expensed in fiscal 1999, and to new inventory procurement and management procedures, which reduced the amount of product write-offs during fiscal 2000. Partially offsetting these improvements were the adverse effects of product mix changes, decreased sales of certain training programs and increased wholesale channel sales. During fiscal 1999, the Company began a restructuring plan that examined all aspects of the business. In connection with this review, certain products and curricula were discontinued. Additionally, the Company actively sought to optimize inventory levels through improved policies and procedures. These improved procedures had a favorable effect on the Company's gross margin during fiscal 2000. As previously described, the Company experienced significantly increased sales of handheld electronic devices during fiscal 2000. Although handheld electronic devices have favorably affected sales performance, these electronic devices have gross margins that are lower than the majority of the Company's other products and services. As sales of handheld electronic devices continue to grow, and increase as a percentage of total Company sales, further gross margin erosion may occur. In addition, decreased sales of higher margin training program revenues, primarily productivity programs and personal coaching, also adversely affected the Company's gross margin. Increased sales through wholesale channels continues to unfavorably affect the Company's gross margin through contracted pricing terms that have produced increased sales volume, but at lower margins.

Operating Expenses

Selling, general and administrative ("SG&A") costs increased $34.3 million to 46.0 percent of sales compared to 42.4 percent of sales during fiscal 1999. Increased SG&A expenses were primarily due to ongoing development of electronic-based products and services, electronic commerce channels, spending to support expected growth in the Premier business, newly acquired businesses, increased promotional expenses, the addition of 10 new retail stores, and increased consulting costs associated with projects related to the Company's restructuring plan. The increases were partially offset by a decrease in core employee costs as a result of headcount reduction efforts. Throughout fiscal 2000, the Company aggressively invested in the development and marketing of new electronic-based products, on-line training programs, and various application tools. Due to the significant increase in handheld electronic devices and related accessories, the Company increased its customer support services for these products. Additionally, the Company continued to invest in improvements to its electronic commerce infrastructure to meet changing consumer preferences and committed significant resources to the development of its Internet web site and other on-line products and services, such as www.franklincoveyplanner.com. The Company believes that the development of on-line products and services, combined with an efficient e-commerce base will enable it to achieve a competitive advantage in the future by providing a variety of tools in various formats to enable organizations and individuals to craft effective solutions to meet their needs. Premier, which develops and produces planners and other solutions for the educational market, increased its SG&A spending as a result of a new regional office and additional headcount necessary to support expected growth in fiscal 2000 and beyond. The purchases of the Professional Resources Organization and DayTracker.com, which were acquired during fiscal 2000, have also resulted in increased total SG&A expenses compared to the prior year. The Company also increased its promotional spending, primarily for catalogs and direct mailings, to advertise new products and to improve public program sales. As part of the Company's restructuring plan, consultants have been engaged to assist the Company with projects such as improving brand recognition, improving accounts receivable collections, expanding European operations, and other related projects that are designed to position the Company for profitable growth in the future.

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

Stock Option Purchase and Relocation Costs

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

Interest Expense

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

Income Taxes

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

Preferred Stock Dividends

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

FISCAL 1999 COMPARED WITH FISCAL 1998

Sales

Consumer products sales increased $10.3 million, or four percent, compared to the prior year. Sales increases from the Company's retail stores, contract stationer channels, and the Internet were offset by decreased sales from catalog operations and government products. Retail store sales increased due to five additional stores and a two percent increase in comparable store sales. At August 31, 1999, the Company was operating 125 retail stores compared to 120 stores at August 31, 1998. Comparable store sales growth was primarily attributable to increased sales of technology-related products, as well as the introduction of limited edition planners such as the Hallmark® and Shoebox® planners. The Company also had increased sales from contract stationer channels due to increased demand from new marketing and distribution agreements. Sales from the Internet channel have increased due to general changes in consumer buying habits and ongoing enhancements to the Company's electronic commerce infrastructure. Increased sales from these channels were partially offset by decreased sales from the government products group and the Company's catalog operations. Product sales to the U.S. government continued to be adversely affected by changes in the government procurement process. Sales growth in other distribution channels, including retail stores, contract stationers, and the Internet, continue to have an adverse affect on catalog sales. Price increases did not have a material effect on sales growth between the periods.

Training and education sales decreased by $1.3 million, or one percent, compared to the prior year. Sales increases from Premier, personal coaching, and direct product channels were offset by sales decreases in core training programs and a decline in book royalties. Premier continues to expand its share of the school agenda market and recognized a 22 percent increase in sales, primarily from new customers. New business from both personal coaching and the direct-products channel resulted in increased sales during fiscal 1999. These increases in training and education sales were offset by decreased core training sales, primarily from corporate/on-site and facilitated programs for leadership training. In addition, book royalties decreased due to the decline in royalties received from *The 7 Habits of Highly Effective Families* book that was released in fiscal 1998.

International sales increased by $5.4 million, or 12 percent, compared to the prior year. The increase was primarily due to the acquisition of a former licensee in Japan, which occurred during the fourth quarter of fiscal 1998. Partially offsetting this increase were decreased sales in Canada and the Middle East. The Company's Canadian operations were adversely affected as a result of labor disputes at one of its largest clients. Also during fiscal 1999, the Company converted its Middle Eastern direct office into a licensee operation. Although this conversion reduced expenses and certain other business risks, the Company only receives licensee royalties on qualifying sales. Other geographic regions recorded nominal sales fluctuations compared to the prior year.

Other sales, which consist of the Company's commercial printing services and fitness training sales, decreased $6.1 million, or 17 percent, compared to the prior year. The decrease was due to the sale of the Company's Institute of Fitness, which recognized sales of $6.8 million during fiscal 1998, but was sold during the fourth quarter of fiscal 1998. The decrease resulting from the Institute of Fitness sale was partially offset by increased commercial printing sales at Publishers Press.

Gross Margin

Gross margin was 56.2 percent of sales for fiscal 1999, compared to 60.9 percent in the prior year. The Company's gross margin was adversely affected during fiscal 1999 by inventory write-offs, changes in product mix, channel pricing, decreased core training volume, and declining book royalties. The Company's product mix continues to be affected by an overall decrease in high-margin planner sales and an increase in lower-margin technology-related product sales. Increased sales from the contract stationer channel also adversely affected gross margin due to contracted pricing terms that have resulted in higher unit sales volume, but at reduced margins. Core training programs offered by the Company have gross margins that are generally higher than the Company's gross margin on product sales. Continued declining sales of these higher-margin programs resulted in a lower total gross margin for the Company during fiscal 1999. Additionally, book royalties received in the prior year reflect the impact of *The 7 Habits of Highly Effective Families,* which was released in fiscal 1998 and had declining sales during the year, thus directly impacting the Company's gross margin in fiscal 1999.

Operating Expenses

Selling, general and administrative expenses increased $13.7 million, to 42.4 percent of sales, compared to 40.5 percent in the prior year. The increase was primarily due to the development of electronic-based products and electronic commerce channels, increased promotional spending during the fourth quarter, and the acquisition of King Bear. In addition, SG&A expenses increased due to the opening of five new stores during fiscal 1999. During the year, the Company invested heavily to develop and market new electronic-based products, such as the Franklin Planner for Microsoft Outlook™. The Company also spent significant amounts to improve its electronic commerce infrastructure to meet changing consumer preferences and committed significant resources to the development of its Internet web site and other on-line products and services. During the fourth quarter of fiscal 1999, the Company increased its promotional spending, primarily for catalogs and direct mailings, to advertise new products, such as the Millennium edition of the Franklin Planner, and to improve training program sales performance. Increased SG&A expenses can also be attributed to the acquisition of King Bear during fiscal 1998, which added $5.9 million of incremental expenses to fiscal 1999. These increases were partially offset by the sale of the Institute of Fitness, which recorded $3.8 million of SG&A expenses prior to its sale in fiscal 1998.

Depreciation charges increased by $3.5 million over the prior year primarily due to new computer software and hardware purchased in conjunction with the Company's business transformation project and the addition of leasehold improvements for new stores. Equipment and software purchased in connection with the business transformation project are depreciated over estimated useful lives of three to five years. Amortization charges increased by $3.0 million due to amortization of contingent earnout payments made during the second quarter of fiscal 1999 and the amortization of certain business transformation project costs.

Restructuring Costs

During the fourth quarter of fiscal 1999, the Company initiated a restructuring plan designed to restructure the Company's operations, reduce its workforce and formally exit the majority of its leased office space located in Provo, Utah. As part of the restructuring plan, the Company intended to reduce its workforce from 4,200 employees to approximately 3,600 employees. The cost to provide severance and related benefits was estimated to be $11.7 million. Also included in the restructuring provision is a charge to exit certain leased office space in Provo, Utah. These facilities formerly accommodated sales, marketing, and other functions primarily aligned with the training and education SBU.

Loss on Impaired Assets

At each balance sheet date, the Company reviews its goodwill, other intangible assets, and other long-term assets to determine whether events or circumstances may have occurred which indicate possible impairment. As part of the restructuring plan initiated during the fourth quarter of fiscal 1999, all programs, products, and curriculum were evaluated to determine their future value in the restructured Company. As a result of this evaluation, certain products, services, and curricula were discontinued. Other intangible and long-term assets were also reviewed for future value using undiscounted cash flows or other appropriate valuation methodologies. Based upon this analysis, the Company recognized a $16.6 million loss on impaired long-lived assets for the year ended August 31, 1999.

Interest Expense

Interest expense increased $1.6 million, primarily due to increased borrowing on the Company's long-term line of credit to purchase shares of the Company's common stock during fiscal 1999.

Income Taxes

During fiscal 1999, the Company recognized income tax expense of $4.5 million. Although the Company had a loss before income taxes of $4.2 million, non-deductible goodwill amortization from the merger with Covey Leadership Center and other acquisitions, foreign income tax expense, and losses in foreign countries resulted in a net taxable position for the year. The effect of foreign losses is primarily comprised of losses sustained in Japan for which no offsetting tax benefit could be recognized due to uncertain future taxable income to offset such losses.

Preferred Stock Dividends

During the fourth quarter of fiscal 1999, the Company issued 750,000 shares of Series A Preferred Stock for $75.0 million in cash to a private investor. The preferred stock dividends accrue at an annual rate of 10 percent and are payable quarterly in cash or additional shares of preferred stock until July 1, 2002. Accordingly, the Company accrued $1.9 million in preferred stock dividends as of August 31, 1999. Subsequent to August 31, 1999, the Company paid the accrued dividend with additional shares of preferred stock.

QUARTERLY RESULTS

The following tables set forth selected unaudited quarterly consolidated financial data for the most recent eight quarters. The quarterly consolidated financial data reflects, in the opinion of management, all adjustments necessary to fairly present the results of operations for such periods. Results of any one or more quarters are not necessarily indicative of continuing trends.

Quarterly Financial Information:

YEAR ENDED AUGUST 31, 2000

	Q1	Q2	Q3	Q4
In thousands, except per share amounts				
Sales	$144,078	$145,023	$110,759	$185,339
Gross margin	85,053	83,098	57,710	105,130
Restructuring costs			(402)	(4,544)
Stock option purchase and relocation costs	491	1,668	8,361	707
Income (loss) before provision for income taxes	13,093	5,430	(27,701)	14,731
Net income (loss)	7,188	2,819	(18,834)	4,418
Preferred dividends	1,914	2,036	2,028	2,027
Income (loss) available to common shareholders	$ 5,274	$ 783	$ (20,862)	$ 2,391
Diluted income (loss) per share	$ .26	$ .04	$ (1.02)	$ .12

YEAR ENDED AUGUST 31, 1999

	Q1	Q2	Q3	Q4
In thousands, except per share amounts				
Sales	$140,362	$137,089	$109,267	$168,205
Gross margin	86,431	79,128	58,522	87,710
Restructuring costs				16,282
Loss on impaired assets				16,559
Income (loss) before provision for income taxes	18,815	11,305	(7,922)	(26,424)
Net income (loss)	10,913	6,557	(4,595)	(21,647)
Preferred dividends				1,875
Income (loss) available to common shareholders	$ 10,913	$ 6,557	$ (4,595)	$ (23,522)
Diluted income (loss) per share	$ .50	$ .31	$ (.22)	$ (1.15)

The Company's quarterly results of operations reflect seasonal trends that are primarily the result of customers who renew their Franklin Planners on a calendar year basis. Training and Education sales are moderately seasonal because of the timing of corporate training, which is not typically scheduled during holiday and vacation periods, and the timing of Premier Agenda's sales, which occur primarily in the Company's fourth quarter. In the Company's experience, catalog sales, retail store sales, and net income tend to be lower during the third quarter of each fiscal year. The seasonal nature of the Company's operations has historically resulted in higher sales and significantly higher operating margins during the first, second, and fourth quarters, with declines in sales and income occurring during the third quarter of each fiscal year. The Company believes that the seasonal pattern of sales and earnings during its fiscal year will continue as in the past, exclusive of restructuring and other similar charges.

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

During the fourth quarter of fiscal 1999, the Company initiated a restructuring plan that resulted in a $16.3 million charge to operations. Included in the restructuring charge were costs necessary to reduce the Company's workforce by approximately 600 employees and to exit the majority of leased office space in Provo, Utah. The Company reassessed the severance portion of the restructuring accrual during the fourth quarter of fiscal 2000 and reduced the remaining accrual by $4.5 million. The adjustment was primarily due to favorable economic conditions that allowed former employees to find new jobs more quickly than expected and resulted in reduced severance costs. Also during fiscal 2000, the Company exited the leased office space located in Provo, Utah and obtained a subleasee for the property. After an assessment of the sublease terms, the Company adjusted its restructuring accrual by $0.4 million during the third quarter of fiscal 2000 to reflect lower than expected building transition costs. As of August 31, 2000, accrued severance costs consisted of expected remaining severance and benefit payments for affected employees. Remaining accrued leased office space exit costs consisted of items such as the difference between the base rental charge and sublease revenues over time and tenant improvements. As of August 31, 2000, the restructuring plan was substantially complete and the Company expects that the remaining restructuring accrual will be sufficient to complete its restructuring plan.

As part of its restructuring plan, and upon review of certain goodwill, intangibles, and other long-term assets, the Company recognized a loss on impaired assets totaling $16.6 million during the fourth quarter of fiscal 1999.

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

LIQUIDITY AND CAPITAL RESOURCES

Historically, the Company's primary sources of capital have been net cash provided by operating activities, long-term borrowing, and line-of-credit financing. Working capital requirements have also been financed through short-term borrowing and line-of-credit financing. In addition to these sources, the Company issued preferred stock to a private investor in the fourth quarter of fiscal 1999, and to existing shareholders through a subscription offering during fiscal 2000. The subscription offering closed on November 30, 1999 with 42,338 shares of preferred stock purchased under terms of the offering. The preferred stock issued to shareholders was substantially identical to preferred shares previously issued to the private investor. Net proceeds from the subscription offering were $4.1 million.

Net cash provided by operating activities during fiscal 2000 and 1999 was $50.6 million and $36.0 million, respectively. Adjustments to net loss for fiscal 2000 included $48.5 million of depreciation and amortization charges. The primary sources of cash from operations resulted from improved collections of accounts receivable and reduced inventories. In contrast with recent fiscal years, the collection of accounts receivable resulted in a net source of cash to the Company in spite of continued fourth quarter sales growth at Premier Agendas. During fiscal 2000, the Company implemented new accounts receivable collection policies and procedures at its core operations, which reduced the number of receivable days outstanding and improved cash flows. The Company also implemented new inventory procedures designed to optimize inventory levels, which contributed to reduced inventory levels compared with the prior year. Additionally, the Company utilized certain income tax benefits and various tax strategies to minimize required income tax payments throughout the year. The primary uses of cash in fiscal 2000 were payments related to the Company's restructuring plan for severance and building exit costs, and the purchase of stock options and payments for sales associate relocation expenses. For the fiscal year ended August 31, 1999, adjustments to net loss included $43.5 million of amortization and depreciation, $16.6 million for losses on impaired assets and a net increase of $10.5 million in deferred tax assets. The change in deferred taxes primarily represents an increase in current deferred tax assets generated in fiscal 1999. The primary uses of cash for operational activities were increases in inventory of $12.0 million and increased receivables totaling $8.9 million. Inventories increased primarily due to an increase in the number of Franklin Planner designs, new binder models in stock and higher costs associated with electronic products. Accounts receivable increased due to increased sales at Premier, which has seasonal sales that occur primarily during the Company's fourth quarter. In connection with its restructuring plan, the Company recorded a $16.2 million accrual in fiscal 1999 for expected costs to reduce the workforce and exit certain leased office space, which is included as a component of cash flows from operations. Cash used to pay income taxes is the result of quarterly payments on expected taxable earnings that exceeded actual taxable income for the year. The increase in payables and accrued liabilities is primarily due to the timing of goods and services received and corresponding payments.

Net cash used for investing activities during fiscal years 2000 and 1999 was $38.9 million and $40.7 million, respectively. For the year ended August 31, 2000, the Company used $24.5 million of cash to purchase computer hardware and software, manufacturing equipment, leasehold improvements, and other property and equipment. The Company used $16.3 million to pay contingent earnout payments to the former owners of Premier Agendas and personal coaching. In addition, the operations of Professional Resources Organization and Daytracker.com were acquired during fiscal 2000 for $4.5 million in cash. The Company also sold the assets of the commercial division of Publishers Press, a printing services subsidiary, for $11.0 million in cash and a $2.4 million secured note receivable. Net cash proceeds to the Company from the sale totaled $6.4 million. During fiscal 1999, the Company paid $14.8 million in contingent earnout payments and spent an additional $4.2 million to acquire other businesses during the year, including Khalsa Associates, a sales training company. Capital expenditures during fiscal 1999 totaled $23.0 million and consisted primarily of an addition to one of the Company's buildings, new store leasehold improvements, computer hardware and software, and other manufacturing equipment. The Company also received $1.3 million in cash from the sale of certain land and a non-business related building.

Net cash used for financing activities during fiscal 2000 was $18.0 million, compared to net cash proceeds of $2.4 million in fiscal 1999. The primary source and use of cash was related to the expansion of the Company's line of credit and the retirement of certain notes payable. At August 31, 1999, the Company had $85.0 million of senior unsecured notes payable (the "Notes Payable") outstanding. The Notes Payable required the Company to maintain certain financial ratios and net worth levels until the Notes Payable were paid in full. Due to restructuring charges in the fourth quarter of fiscal 1999, the Company was not in compliance with the terms of the Notes Payable. The Company did not obtain a waiver of the terms of the Notes Payable, and during the first quarter of fiscal 2000, the Notes Payable were retired at par plus accrued interest. Also during the first quarter of fiscal 2000, the Company obtained a new line of credit from existing lenders that maintained the Company's $10.0 million short-term line of credit, but expanded the long-term line to $100.0 million. The $100.0 million long-term line was subsequently scaled back to $73.0 million as a result of the Company's guarantee related to the management stock loan program. The Company used existing cash and its expanded line of credit to retire the Notes Payable. During fiscal 1999, the Company used $40.7 million for payments on long-term debt, primarily on its long-term line of credit. In addition, the Company used $32.7 million to purchase 2,126,000 shares of its common stock during fiscal 1999. The primary source of cash from financing activities during fiscal 1999 was the issuance of 750,000 shares of preferred stock to a private investor for $75.0 million.

At August 31, 2000, the Company had unsecured bank lines of credit available for working capital needs totaling $103.0 million. The Company's lines of credit consisted of a $10.0 million short-term line of credit, a $20.0 million short-term line of credit, and a $73.0 million long-term credit facility. On August 31, 2000, the Company had $17.9 million outstanding on the short-term lines of credit and $55.0 million outstanding on the long-term line of credit. The line of credit agreements require the Company to maintain certain financial ratios and working capital levels, excluding the impact of stock option repurchases during fiscal 2000. At August 31, 2000, the Company was in compliance with the terms of the line of credit agreements. The Company's line of credit agreements expire on December 1, 2001.

During fiscal 2000, the Company announced the implementation of an incentive based compensation program that includes a loan program from external lenders to certain managers for the purpose of purchasing shares of the Company's common stock. The program gives management of the Company the opportunity to purchase shares of the Company's common stock on the open market, and from shares purchased by the Company, by borrowing on a full-recourse basis from the external lenders. The Company has facilitated the loans by providing a guarantee to the lenders. The program will total approximately $33.0 million and the Company has facilitated the purchase of open-market shares to ensure compliance with appropriate SEC trading rules and regulations. As of August 31, 2000, the Company had facilitated the purchase of 3,559,000 shares with a cost of $30.0 million for the loan program.

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

Regulatory Compliance

The Company is registered in all states that have a sales tax and collects and remits sales or use tax on retail sales made through its stores and catalog sales. Compliance with environmental laws or regulations has not had a material effect on the Company's operations. Inflation has not had a material effect on the Company's operations. However, future inflation may have an impact on the price of materials used in planners and related products, including paper and leather materials. The Company may not be able to pass on such increased costs to its customers.

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

With the exception of historical information (information relating to the Company's financial condition and results of operations at historical dates or for historical periods), the matters discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere are forward-looking statements that necessarily are based on certain assumptions and are subject to certain risks and uncertainties. Such uncertainties include, but are not limited to, unanticipated developments in any one or more of the following areas: the integration of acquired or merged businesses, management of growth, unanticipated costs, delays or outcomes relating to the Company's restructuring plan, availability of financing sources, dependence on products or services, the rate and consumer acceptance of new product introductions, competition, the number and nature of customers and their product orders, pricing, pending and threatened litigation, and other risk factors which may be detailed from time to time in the Company's press releases, reports to shareholders and in filings with the Securities and Exchange Commission ("SEC").

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

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

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

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

MARKET RISK OF FINANCIAL INSTRUMENTS

The Company has exposure to market risk from foreign currency exchange rates and changes in interest rates. To manage the volatility related to currency exchange rates, the Company entered into limited derivative transactions to manage well-defined foreign exchange risks during fiscal 2000. As of August 31, 2000 the Company had derivative instruments outstanding which were used to hedge foreign exchange risks on certain receivable and payable balances. The foreign exchange contracts were accounted for using existing accounting standards and will be subject to the provisions of SFAS No. 133 and related pronouncements in fiscal 2001. Corresponding gains and losses on these and other derivative contracts were immaterial for the year ended August 31, 2000. As the Company continues to expand internationally, the Company's use of foreign exchange contracts may grow in order to manage the foreign currency risks to the Company. As of August 31, 2000, the Company had not entered into derivative instruments to hedge its exposure to interest rate risk.

EURO CONVERSION

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

Report of Independent Public Accountants

To Franklin Covey Co.:

We have audited the accompanying consolidated balance sheets of Franklin Covey Co. (a Utah corporation) and subsidiaries as of August 31, 2000 and 1999, and the related consolidated statements of income and comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended August 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Franklin Covey Co. and subsidiaries as of August 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2000 in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

ARTHUR ANDERSEN LLP
Salt Lake City, Utah
September 28, 2000

Consolidated Balance Sheets

AUGUST 31,	2000	1999
In thousands, except share data		
Assets		
Current assets:		
Cash and cash equivalents	$ 21,242	$ 26,781
Accounts receivable, less allowance for doubtful accounts of $3,350 and $4,074, respectively	84,747	92,500
Inventories	53,599	59,780
Income taxes receivable		3,912
Deferred income taxes	12,916	16,357
Other assets	20,531	12,316
Total current assets	193,035	211,646
Property and equipment, net	121,556	127,863
Goodwill and other intangibles, net	258,475	267,185
Other assets	19,413	16,609
	$592,479	$623,303
Liabilities and Shareholders' Equity		
Current liabilities:		
Lines of credit	$ 17,884	$ 1,396
Accounts payable	28,251	33,038
Accrued compensation	13,598	10,414
Accrued acquisition earnouts	700	15,900
Accrued restructuring costs	5,160	16,200
Other accrued liabilities	42,046	35,992
Income taxes payable	4,645	
Current portion of long-term debt	6,873	90,010
Current portion of capital lease obligations	540	558
Total current liabilities	119,697	203,508
Line of credit	55,000	
Long-term debt, less current portion	7,125	5,624
Capital lease obligations, less current portion	380	919
Deferred compensation liability	3,285	
Deferred income taxes	32,939	34,818
Total liabilities	218,426	244,869
Commitments and contingencies (Notes 6, 8, 10 and 20)		
Shareholders' equity:		
Preferred stock – Series A, no par value; convertible into common stock at $14 per share; 4,000,000 shares authorized, 811,088 shares and 750,000 shares issued, respectively, at $100 per share	80,967	75,000
Common stock, $.05 par value; 40,000,000 shares authorized, 27,055,894 shares issued	1,353	1,353
Additional paid-in capital	225,748	235,632
Retained earnings	186,711	199,125
Note receivable	(894)	
Restricted stock deferred compensation	(58)	(320)
Accumulated other comprehensive loss	(122)	(782)
Treasury stock at cost, 6,439,329 and 6,676,373 shares, respectively	(119,652)	(131,574)
Total shareholders' equity	374,053	378,434
	$592,479	$623,303

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income and Comprehensive Income

YEAR ENDED AUGUST 31,	2000	1999	1998
In thousands, except per share data			
Sales	$585,199	$554,923	$546,612
Cost of sales (exclusive of stock option purchase costs totaling $2,113 in fiscal 2000)	254,208	243,132	213,888
Gross margin	330,991	311,791	332,724
Selling, general and administrative (exclusive of stock option purchase and relocation costs totaling $9,114 in fiscal 2000)	269,303	235,003	221,303
Stock option purchases and relocation costs	11,227		
Depreciation and amortization	45,167	39,539	33,028
Restructuring costs	(4,946)	16,282	
Loss on impaired assets		16,559	
Income from operations	10,240	4,408	78,393
Interest income	1,665	1,278	1,954
Interest expense	(6,178)	(9,912)	(8,316)
Other expense, net	(174)		
Income (loss) before provision for income taxes and cumulative effect of accounting change	5,553	(4,226)	72,031
Provision for income taxes	9,962	4,546	29,893
(Loss) income before cumulative effect of accounting change	(4,409)	(8,772)	42,138
Cumulative effect of accounting change, net of tax (Note 16)			(2,080)
Net (loss) income	(4,409)	(8,772)	40,058
Preferred stock dividends	8,005	1,875	
Net (loss) income available to common shareholders	$ (12,414)	$ (10,647)	$ 40,058
(Loss) income from continuing operations per share:			
Basic	$ (.61)	$ (.51)	$ 1.75
Diluted	(.61)	(.51)	1.70
Cumulative effect of accounting change, net of tax, per share:			
Basic			(.09)
Diluted			(.08)
Net (loss) income per share:			
Basic	$ (.61)	$ (.51)	$ 1.66
Diluted	(.61)	(.51)	1.62
Weighted average number of common and common equivalent shares:			
Basic	20,437	20,881	24,091
Diluted	20,437	20,881	24,726

Comprehensive Income:

	2000	1999	1998
Net (loss) income available to common shareholders	$ (12,414)	$ (10,647)	$ 40,058
Foreign currency translation adjustments	660	1,468	(1,316)
Comprehensive (loss) income	$(11,754)	$ (9,179)	$ 38,742

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

	Series A Preferred Stock		Common Stock		Additional			Deferred	Accumulated Other Compre-	Treasury Stock		Total Share-
	Shares	Amount	Shares	Amount	Paid-in Capital	Retained Earnings	Notes Receivable	Compen-sation	hensive Loss	Shares	Amount	Holders' Equity
In thousands												
Balance at August 31, 1997		$	27,056	$ 1,353	$239,699	$169,714	$	$(1,495)	$ (934)	(2,373)	$ (52,932)	$355,405
Tax benefit from exercise of affiliate stock options					266							266
Issuance of common stock from treasury					(1,913)					247	5,515	3,602
Purchase of treasury shares										(2,687)	(57,013)	(57,013)
Deferred compensation amortization								652				652
Other comprehensive loss									(1,316)			(1,316)
Net income						40,058						40,058
Balance at August 31, 1998			27,056	1,353	238,052	209,772		(843)	(2,250)	(4,813)	(104,430)	341,654
Issuance of Series A Preferred Stock	750	75,000										75,000
Preferred stock dividends						(1,875)						(1,875)
Tax benefit from exercise of affiliate stock options					1,320							1,320
Issuance of common stock from treasury					(3,740)					263	5,566	1,826
Purchase of treasury shares										(2,126)	(32,710)	(32,710)
Deferred compensation amortization								523				523
Other comprehensive income									1,468			1,468
Net loss						(8,772)						(8,772)
Balance at August 31, 1999	750	75,000	27,056	1,353	235,632	199,125		(320)	(782)	(6,676)	(131,574)	378,434
Issuance of Series A Preferred Stock	42	4,092										4,092
Preferred stock dividends						(8,005)						(8,005)
Tax benefit from exercise of affiliate stock options					557							557
Issuance of common stock from treasury					(10,441)					925	17,404	6,963
Purchase of treasury shares										(688)	(5,482)	(5,482)
Issuance of note receivable from sale of common stock							(894)					(894)
Deferred compensation amortization								262				262
Other comprehensive income									660			660
Dividends on preferred stock paid with additional shares of preferred stock	19	1,875										1,875
Net loss						(4,409)						(4,409)
Balance at August 31, 2000	811	$80,967	27,056	$ 1,353	$225,748	$186,711	$ (894)	$ (58)	$ (122)	(6,439)	$(119,652)	$374,053

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

YEAR ENDED AUGUST 31,	2000	1999	1998
In thousands			
Cash Flows From Operating Activities:			
Net (loss) income	$ (4,409)	$ (8,772)	$ 40,058
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	48,510	43,547	38,626
Loss on impaired assets		16,559	
Deferred income taxes	1,562	(10,503)	613
Restricted stock deferred compensation amortization	262	522	652
Loss on sale of assets	295	673	317
Changes in assets and liabilities, net of effects from acquisitions:			
Decrease (increase) in accounts receivable	4,639	(8,879)	(9,995)
Decrease (increase) in inventories	3,943	(11,981)	8,061
Increase in other assets and other long-term liabilities	(8,056)	(3,868)	(12,044)
Increase (decrease) in accounts payable and accrued liabilities	5,804	10,966	(4,495)
(Decrease) increase in accrued restructuring costs	(11,040)	16,200	
Increase (decrease) in income taxes payable	9,113	(8,491)	12,261
Net cash provided by operating activities	**50,623**	**35,973**	**74,054**
Cash Flows From Investing Activities:			
Acquisition of businesses, including earnout payments	(21,444)	(19,025)	(16,786)
Purchases of property and equipment, net of effects from acquisitions	(24,523)	(22,996)	(39,239)
Proceeds from sale of property and equipment	7,032	1,288	12,210
Net cash used for investing activities	**(38,935)**	**(40,733)**	**(43,815)**
Cash Flows From Financing Activities:			
Net increase (decrease) in short-term borrowings	16,488	(2,229)	(889)
Proceeds from long-term debt and line of credit, net of effects from acquisitions	76,308	1,142	119,969
Payments on long-term debt and capital lease obligations	(109,502)	(40,652)	(87,221)
Proceeds from issuance of Series A Preferred Stock, net	4,092	75,000	
Purchases of common stock for treasury	(5,483)	(32,710)	(57,013)
Proceeds from issuance of treasury stock	6,069	1,826	3,602
Payment of preferred stock dividends	(5,977)		
Net cash (used for) provided by financing activities	**(18,005)**	**2,377**	**(21,552)**
Effect of foreign exchange rates	778	1,404	(1,316)
Net (decrease) increase in cash and cash equivalents	(5,539)	(979)	7,371
Cash and cash equivalents at beginning of year	26,781	27,760	20,389
Cash and cash equivalents at end of the year	**$ 21,242**	**$ 26,781**	**$ 27,760**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation

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

Pervasiveness of Estimates

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

Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. As of August 31, 2000, the Company had demand deposits at various banks in excess of the $100,000 limit for insurance by the Federal Deposit Insurance Corporation.

Inventories

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

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation or amortization. Depreciation or amortization is calculated using the straight-line method over the expected useful lives of the assets as follows:

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

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

Restricted Investments

The Company's restricted investments are comprised of investments in mutual funds that are held in a "Rabbi Trust" and are restricted for payment to the participants of the Company's deferred compensation plan (Note 7). The Company accounts for its restricted investments using Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The Company determines the proper classification of investments at the time of purchase and reassesses such designations at each balance sheet date. At August 31, 2000, the Company's restricted investments were classified as trading securities and recorded in other long-term assets in the accompanying fiscal 2000 consolidated balance sheet.

In accordance with SFAS No. 115, the unrealized loss, which was immaterial for fiscal 2000, has been recognized in the accompanying consolidated income statement for fiscal 2000 as a component of selling, general, and administrative expense.

Other Long-Term Assets

The Company was recently involved in a business reengineering and information systems implementation project (the "Project"). Certain costs of the Project have been capitalized (Note 16). At August 31, 2000 and 1999, the Company had $8.5 million and $10.6 million of net capitalized Project costs classified as other long-term assets. Project costs are amortized over a five-year period following completion of associated Project phases. As of August 31, 2000, all phases of the Project were completed.

Long-Lived Assets

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

During the fourth quarter of fiscal 1999, the Company initiated a plan to restructure its operations (Note 2). As part of the restructuring plan, all programs, products, and curriculum were evaluated to determine their future value in the restructured Company. As a result of this evaluation, certain products, services, and curricula were discontinued which impacted the related long-lived assets and goodwill. Based upon the results of this review, the Company recognized a $16.6 million charge in the fourth quarter of fiscal 1999 for impaired assets related to the discontinued products and programs. The loss on impaired assets for the year ended August 31, 1999 was comprised of the following (in thousands):

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

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

Foreign Currency Translation and Transactions

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

Revenue Recognition

Revenue is recognized upon shipment of product or presentation of training seminars.

Pre-Opening Costs

Pre-opening costs associated with new retail stores are charged to expense as incurred. These amounts were not significant for the periods presented in the accompanying consolidated financial statements.

Income Taxes

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

Comprehensive Income

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

Concentrations of Credit Risk

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

Fair Value of Financial Instruments

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

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards requiring that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at fair value and that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. SFAS No. 133, as amended by SFAS No. 137, is effective for fiscal quarters of fiscal years beginning after June 15, 2000. As a result, the Company will adopt the provisions of SFAS No. 133 in the first quarter of fiscal 2001. The Company expects that the implementation of SFAS No. 133 will not have a material impact on the Company's results of operations and financial position.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 provides guidance on the recognition, presentation, and disclosure of revenue in financial statements. In June of 2000, the SEC issued SAB 101B, which extended the implementation date to the Company's fourth quarter of fiscal 2001. The Company does not expect the adoption of SAB 101 to have a material impact on the Company's results of operations, financial position, or liquidity.

Reclassifications

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

2. RESTRUCTURING COSTS

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

	Severance Costs	Leased Office Space Exit Costs	Total
Accrued restructuring costs at August 31, 1999	$11,600	$ 4,600	$16,200
Restructuring costs paid	(4,641)	(1,453)	(6,094)
Adjustments	(4,544)	(402)	(4,946)
Accrued restructuring costs at August 31, 2000	$ 2,415	$ 2,745	$ 5,160

As of August 31, 2000, accrued severance costs consisted of expected remaining severance and benefit payments for terminated employees. Remaining accrued leased office space exit costs represent the difference between base rental charges and the offsetting expected sublease revenue receipts. The Company expects that the remaining restructuring accrual will be sufficient to complete its restructuring plan.

The cost to provide severance and related benefits covered a planned reduction of identified employees across all areas of the business. The following table shows the number of employees in each of the Company's operating segments that have been terminated by the reduction plan:

Operating Segment	Number of Employees
Consumer products	114
Training and education	173
International	57
Corporate support and other	226
	570

The severance cost accrual was established based upon estimates of factors such as expected time to find other employment, expected benefit payments, and severance payment type. However, primarily due to favorable economic conditions which decreased the average time necessary for terminated employees to find new employment, the Company reassessed its potential liability for remaining severance costs. Accordingly, the Company reduced the severance accrual during the fourth quarter of fiscal 2000 by $4.5 million to reflect the estimated remaining liability.

During fiscal 2000, the Company entered into a sublease agreement for the majority of its leased office space in Provo, Utah. In connection with this sublease agreement, the Company reduced its leased office space exit accrual by $0.4 million due to less-than-expected building transition costs. The Company will continue to monitor and adjust its remaining restructuring reserves as necessary.

3. INVENTORIES

Inventories were comprised of the following (in thousands):

AUGUST 31,

	2000	1999
Finished goods	$38,363	$42,594
Work-in-process	2,803	4,186
Raw materials	12,433	13,000
	$53,599	**$59,780**

4. PROPERTY AND EQUIPMENT

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

AUGUST 31,

	2000	1999
Land and improvements	$ 7,634	$ 7,616
Buildings	49,623	48,787
Computer hardware and software	69,261	57,305
Machinery and equipment	42,554	56,287
Furniture, fixtures and leasehold improvements	50,994	50,209
	220,066	220,204
Less accumulated depreciation and amortization	(98,510)	(92,341)
	$121,556	**$127,863**

Certain land and buildings represent collateral for debt obligations (Note 6).

5. GOODWILL AND OTHER INTANGIBLE ASSETS

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

AUGUST 31,

	2000	1999
Goodwill	$142,755	$131,595
License rights	27,000	27,000
Curriculum rights	61,778	61,752
Trade names and other	92,517	94,777
	324,050	315,124
Less accumulated amortization	(65,575)	(47,939)
	$258,475	**$267,185**

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

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

6. DEBT

Lines of Credit

At August 31, 2000, the Company had unsecured bank lines of credit available for working capital needs totaling $103.0 million, of which $30.1 million was available. The amounts outstanding under the Company's lines of credit consisted of the following at August 31, 2000 (in thousands):

$10.0 million current line of credit with interest at the bank's prime rate (9.5% at August 31, 2000)	$ 6,159
$20.0 million current line of credit with interest at LIBOR plus 1.5% (8.1% at August 31, 2000)	11,725
Total current lines of credit	$ 17,884
$73.0 million long-term credit facility with interest at the lower of the prime rate or LIBOR plus 2.0%	$55,000

The weighted average interest rate on outstanding current line of credit debt at August 31, 2000 and 1999 was 8.6 percent and 7.8 percent, respectively. The weighted average interest rate on the long-term credit facility was 8.7 percent as of August 31, 2000.

The line of credit agreements require the Company to maintain certain financial ratios and working capital levels. At August 31, 2000, the Company was in compliance with the terms of the line of credit agreements. The Company's line of credit agreements expire on December 1, 2001.

Commitment fees associated with the lines of credit were $0.7 million during fiscal 2000.

Long-Term Debt

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

AUGUST 31,	2000	1999
Note payable in annual installments of $3,000 plus interest at 8% through December 2001, unsecured	$ 6,000	$
Note payable in quarterly installments of $574 including interest at 5.0% through April 2001, unsecured	1,679	3,822
Mortgage payable in monthly installments of $18 including interest at 8.5% through August 2016, secured by real estate	1,619	1,697
Note payable on demand, plus interest at 8.0%, unsecured	1,396	1,481
Mortgage payable in monthly installments of $14 CDN, including interest at 7.2% through January 2015, secured by real estate	997	
Note payable to bank, payable in monthly installments of $20, including interest at 7.8% through August 2004, secured by equipment	802	976
Mortgage payable in monthly installments of $8 including interest at 9.9% through October 2014, secured by real estate	688	710
Note payable to bank, payable in monthly installments of $23, plus interest at prime plus .5% payable through September 2002, secured by real estate	587	869
Senior unsecured notes payable with interest at 6.6% due semi-annually, paid in full	$	$ 85,000
Note payable to a Japanese bank for YEN 60,000, payable in quarterly installments of YEN 20,000, paid in full		548
Other mortgages and notes, payable in monthly installments, interest ranging from 2.0% to 8.8%, due at various dates through 2002, secured by equipment	230	531
	13,998	95,634
Less current portion	(6,873)	(90,010)
Long-term debt, less current portion	$ 7,125	$ 5,624

As a result of restructuring and impaired asset charges, the Company was not in compliance with certain terms of the $85.0 million senior unsecured notes payable at August 31, 1999. The Company did not obtain a waiver on the terms of the debt covenants, and during October 1999, the Company retired the $85.0 million notes payable at par plus accrued interest. The Company utilized existing cash and its expanded long-term line of credit to retire the notes payable. Accordingly, the $85.0 million notes payable were reported as a component of the current portion of long-term debt in the accompanying fiscal 1999 consolidated balance sheet.

Future maturities of long-term debt at August 31, 2000 were as follows (in thousands):

YEAR ENDING AUGUST 31,	
2001	$ 6,873
2002	3,697
2003	419
2004	386
2005	209
Thereafter	2,414
	$13,998

7. DEFERRED COMPENSATION LIABILITY

During fiscal 2000, the Company established a deferred compensation plan for certain key officers and employees that provides the opportunity to defer a portion of their compensation until a later date. Deferred amounts are held in a "Rabbi Trust", which invests in various mutual funds and/or the Company's common stock as directed by the participants. The trust assets are recorded as a long-term asset in the accompanying fiscal 2000 consolidated balance sheet because such amounts are subject to the claims of creditors. The corresponding deferred compensation liability represents the amounts deferred by participants plus any earnings on the trust assets.

8. LEASE OBLIGATIONS

Capital Leases

Future minimum lease payments for equipment held under capital lease arrangements as of August 31, 2000 were as follows (in thousands):

YEAR ENDING AUGUST 31,	
2001	$ 592
2002	392
Total future minimum lease payments	984
Less amount representing interest	(64)
Present value of future minimum lease payments	920
Less current portion	(540)
	$ 380

Total assets held by the Company under capital lease arrangements were $4.0 million with accumulated amortization of $2.2 million as of August 31, 2000. Amortization of capital lease assets is included in depreciation and amortization expense in the accompanying consolidated income statements.

Operating Leases

The Company leases certain retail store and office locations under noncancelable operating lease agreements with remaining terms of one to ten years. The following table summarizes future minimum lease payments under operating leases at August 31, 2000 (in thousands):

YEAR ENDING AUGUST 31,	
2001	$12,702
2002	11,032
2003	10,231
2004	8,672
2005	5,610
Thereafter	13,980
	$62,227

Total rental expense for leases under operating lease agreements was $17.4 million, $17.6 million, and $16.8 million, for the years ended August 31, 2000, 1999, and 1998, respectively.

As part of its restructuring plan (Note 2), the Company exited certain leased office space in Provo, Utah during fiscal 2000. In connection with leaving the office space, the Company obtained a noncancelable sublease agreement for the majority of the Company's remaining lease term on the buildings. Future minimum lease payments due to the Company from the subleasee as of August 31, 2000 were as follows:

YEAR ENDING AUGUST 31,	
2001	$ 1,792
2002	1,845
2003	1,901
2004	1,958
2005	2,017
Thereafter	3,309
	$12,822

9. ADVERTISING

Costs for newspaper, television, radio, and other advertising are expensed as incurred. Direct response advertising costs consist primarily of printing and mailing costs for catalogs and seminar mailers that are charged to expense over the period of projected benefit, not to exceed twelve months. Total advertising costs were $37.2 million, $33.0 million, and $26.7 million for the years ended August 31, 2000, 1999, and 1998, respectively. Prepaid catalog and seminar mailer costs reported in other current assets were $5.1 million and $5.7 million at August 31, 2000 and 1999, respectively.

10. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

At August 31, 2000, the Company had contracts with various builders, totaling $3.2 million, for construction related to new and remodeled retail stores.

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

Legal Matters

The Company is the subject of certain legal actions, which it considers routine to its business activities. As of August 31, 2000, management believes that, after discussion with its legal counsel, any potential liability to the Company under such actions will not materially affect the Company's financial position or results of operations.

11. RELATED PARTY TRANSACTIONS

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

During fiscal 2000, the Company actively sought to reacquire outstanding options to purchase the Company's common stock (Note 12). Included in the total number of option shares reacquired, the Company purchased 150,000 option shares from a Vice-Chairman of the Board of Directors for $0.4 million. In addition, 358,000 option shares were purchased from two officers and one former officer of the Company for a total of $0.8 million. These options were reacquired using the same valuation methodology as other stock options purchased by the Company.

As part of the preferred stock offering completed during fiscal 1999 (Note 12), an affiliate of the investor was named Chairman of the Board of Directors and Chief Executive Officer. The new Chairman and CEO was previously a member of the Company's Board. In addition, two affiliates of the investor were appointed to the Board of Directors. In connection with the preferred stock offering, the Company pays an affiliate of the investor a monitoring fee of $100,000 per quarter.

Premier Agendas ("Premier"), a subsidiary of the Company, had trade accounts payable to various companies which are partially owned by certain former owners of Premier totaling $2.1 million and $3.3 million at August 31, 2000 and 1999, respectively. In addition, Premier had notes payable to key employees and former key employees totaling $1.4 million and $1.5 million as of August 31, 2000 and 1999, respectively (Note 6). The notes payable were used for working capital, are due upon demand, and have interest rates which approximate prevailing market rates.

The Company pays a Vice-Chairman of the Board of Directors a percentage of the proceeds received for seminars that are presented by him. During the fiscal years ended August 31, 2000, 1999, and 1998, the Company paid $3.3 million, $3.0 million, and $2.4 million, respectively, to the Vice-Chairman for such seminars.

The Company, under a long-term agreement, leases buildings from a partnership that is partially owned by a Vice-Chairman of the Board of Directors and certain officers of the Company. Rental expense paid to the partnership totaled $2.1 million, $2.1 million, and $1.8 million, during the fiscal years ended August 31, 2000, 1999, and 1998, respectively.

During fiscal years 2000 and 1998, the Company purchased 9,000 shares and 500,000 shares of its common stock for $0.1 million and $12.0 million in cash, respectively, from a Vice-Chairman of the Board of Directors. All shares were purchased at the existing fair market value on the dates of the transactions.

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

During the fiscal year ended August 31, 1999, the Company purchased 130,000 shares of its common stock for $2.3 million in cash, from an officer of the Company. The shares were purchased at the existing fair market value on the date of the transaction.

During the fiscal years ended August 31, 1999 and 1998, the Company purchased 92,000 and 100,000 shares of its common stock for $1.2 million and $2.5 million in cash, respectively, from a former officer and director of the Company. The shares were purchased at the existing fair market value on the dates of the transactions.

The Company purchased 194,000 shares of its common stock from a director of the Company for $3.7 million in cash during the fiscal year ended August 31, 1998. Also during fiscal 1998, the Company purchased 57,094 shares of its common stock from a former officer of the Company for $1.1 million. The shares were purchased at the existing fair market value on the dates of the transactions.

During fiscal 1998, the Company sold one of its consulting units to a group of former employees for $1.6 million. The amount is payable to the Company in six annual installments from September 1998 through 2003. The Company also granted certain employees the option to purchase another consulting unit of the Company for $1.2 million payable to the Company in equal annual installments over a ten-year period commencing January 2001. Such option becomes exerciseable upon the achievement of certain financial thresholds. As of August 31, 2000, the consulting unit had not yet reached planned financial thresholds and the Company does not expect that the option will be exercised.

12. CAPITAL TRANSACTIONS

Preferred Stock

During the fiscal year ended August 31 1999, the Company issued 750,000 shares of Series A Preferred Stock (the "Preferred Stock") for $75.0 million in cash to a private investor. During fiscal 2000, and in connection with the initial issuance of Preferred Stock, the Company filed a registration statement with the SEC related to a subscription offering for up to an additional 750,000 shares of Preferred Stock. Common stock shareholders of record on November 8, 1999 received a non-transferable right to purchase one share of Preferred Stock for every 27 common shares owned, at a subscription price of $100 per share. The Preferred Stock shares offered to common shareholders were substantially identical to the Preferred Stock issued during fiscal 1999 to the private investor. The subscription offering closed on November 30, 1999 with 42,338 shares of Preferred Stock purchased under terms of the subscription offering.

Preferred Stock dividends accrue at an annual rate of 10 percent and are payable quarterly in cash or additional shares of Preferred Stock until July 1, 2002. Subsequent to that date, Preferred Stock dividends must be paid in cash. Accordingly, the Company accrued $2.0 million and $1.9 million of Preferred Stock dividends at August 31, 2000 and 1999, respectively. Subsequent to August 31, 2000, the Company paid the accrued Preferred Stock dividend with cash while the accrued dividend at August 31, 1999 was subsequently paid in additional shares of Preferred Stock. The Preferred Stock is convertible at any time into the Company's common stock at a conversion price of $14.00 per share and ranks senior to the Company's common stock. Preferred Stock shareholders generally have the same voting rights as common stock holders on an "as-converted" basis.

Treasury Stock

The Company sold 153,614, 263,100, and 247,069 shares of its common stock held in treasury as a result of the exercise of incentive stock options and the purchase of shares under the Company's employee stock purchase plan for the fiscal years ended August 31, 2000, 1999, and 1998, respectively. These shares were sold for a total of $1.0 million, $1.4 million, and $3.6 million and had a cost of approximately $2.9 million, $5.6 million, and $5.5 million for the fiscal years ended August 31, 2000, 1999, and 1998. Additionally, during fiscal 2000, the Company sold 650,000 shares of treasury stock to its management stock loan program (Note 20) for $5.1 million, which was the fair market value of the shares sold. As discussed in Note 11, the Company also sold 121,250 shares of treasury stock to a former CEO of the Company for $0.9 million.

Through August 31, 2000, the Company's Board of Directors had approved various plans for the purchase of up to 8,000,000 shares of the Company's common stock. During fiscal years 2000, 1999, and 1998, the Company purchased 688,000 shares for $5.5 million, 2,126,000 shares for $32.7 million, and 2,687,000 shares for $57.0 million. The majority of the shares purchased during fiscal 2000 were subsequently sold to the Company's management stock loan program (Note 20). At August 31, 2000, the Company had approximately 307,000 shares remaining under Board authorized purchase plans.

Tax Benefit from Exercise of Affiliate Stock Options

During the fiscal years ended August 31, 2000, 1999, and 1998, certain employees exercised affiliate stock options (nonqualified stock options received from principal shareholders of the Company) which resulted in tax benefits to the Company of $0.6 million, $1.3 million, and $0.3 million, which were recorded as increases to additional paid-in capital.

Restricted Stock Deferred Compensation

Deferred compensation represents restricted stock granted to key executives. The stock vests in full four years from the date of grant and was recorded at the fair market value at the date of grant. Compensation expense is recognized ratably over the corresponding four-year vesting period. Deferred compensation is included as a reduction to shareholders' equity in the accompanying consolidated balance sheets.

Stock Options

The Company's Board of Directors has approved an incentive stock option plan whereby shares of common stock are issued to key employees at a price not less than the fair market value of the Company's common stock at the date of grant. The term, not to exceed ten years, and exercise period of each incentive stock option awarded under the plan are determined by a committee appointed by the Company's Board of Directors. At August 31, 2000, approximately 570,000 shares were available for grant under the current incentive stock option plan.

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

	Number of Options	Weighted Avg. Exercise Price
Outstanding at August 31, 1997	3,901,928	$20.24
Granted	434,800	23.64
Exercised	(200,024)	13.62
Forfeited	(466,974)	23.72
Outstanding at August 31, 1998	3,669,730	21.89
Granted	2,058,825	12.02
Exercised	(231,931)	3.59
Forfeited	(212,459)	18.89
Outstanding at August 31, 1999	5,284,165	19.05
Granted	354,685	7.59
Exercised	(22,334)	4.38
Repurchased	(3,294,476)	22.54
Forfeited	(574,033)	15.69
Outstanding at August 31, 2000	1,748,007	$11.59

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

AUGUST 31,	2000	1999	1998
Exerciseable options	757,656	2,683,966	2,261,935
Weighted average exercise price per share	$14.83	$23.87	$22.65

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

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

YEAR ENDED AUGUST 31,	2000	1999	1998
Net (loss) income available to common shareholders as reported	$(12,414)	$(10,647)	$40,058
Net (loss) income available pro forma	(11,404)	(16,181)	34,978
Diluted (loss) earnings per share as reported	(.61)	(.51)	1.62
Diluted (loss) earnings per share pro forma	(.57)	(.80)	1.41

The following information applies to options outstanding at August 31, 2000:

- A total of 434,054 options outstanding have exercise prices between $2.78 and $6.88 per share, with a weighted average exercise price of $6.05 and a weighted average remaining contractual life of 7.4 years. At August 31, 2000, 194,739 options were exercisable.
- Options outstanding for 271,300 shares have exercise prices between $7.00 and $9.50 per share, with a weighted average exercise price of $7.58 and a weighted average remaining contractual life of 9.2 years of which 27,325 were exercisable at August 31, 2000.
- A total of 561,000 options outstanding have an exercise price of $9.69 per share, with a weighted average remaining contractual life of 8.7 years. At August 31, 2000, 147,375 options were exercisable.
- A total of 383,078 options outstanding have exercise prices between $11.83 and $24.38 per share, with a weighted average exercise price of $17.98 per share and a weighted average remaining contractual life of 5.12 years of which 292,142 were exercisable at August 31, 2000.
- The remaining 98,575 options outstanding have exercise prices between $26.00 and $34.50 per share, with a weighted average exercise price of $33.29 per share and a weighted average remaining contractual life of 4.0 years. At August 31, 2000, 96,075 shares were exercisable.

The weighted average fair value of option shares granted under the Company's stock option plans during the fiscal years ended August 31, 2000, 1999, and 1998 was $3.03, $4.79, and $11.17, respectively.

The Black-Scholes option-pricing model was used to calculate the weighted average fair value of options using the following assumptions for grants for fiscal years 2000, 1999, and 1998:

YEAR ENDED AUGUST 31,	2000	1999	1998
Dividend yield	None	None	None
Volatility	55.3%	55.8%	57.7%
Expected life (years)	4.4	4.3	5.2
Risk free rate of return	5.3%	5.3%	5.4%

The estimated fair value of options granted is subject to the assumptions made and if the assumptions were to change, the estimated fair value amounts could be significantly different. The weighted average fair value of options exercised during fiscal years 2000, 1999, and 1998 was $8.40, $7.04, and $13.62, respectively.

13. EMPLOYEE BENEFIT PLANS

Profit Sharing Plans

The Company has defined contribution profit sharing plans that qualify under Section 401(k) of the Internal Revenue Code. The plans provide retirement benefits for employees meeting minimum age and service requirements. Participants may contribute up to 15 percent of their gross wages, subject to certain limitations. The plans provide for matching contributions by the Company. The matching contributions expensed in the years ended August 31, 2000, 1999, and 1998, were $1.8 million, $1.7 million, and $1.7 million, respectively.

Employee Stock Purchase Plan

The Company has an employee stock purchase plan whereby shares of common stock can be purchased by qualified employees at a price equal to 85 percent of the fair market value of common stock at the time of purchase. During fiscal 2000, the Company's Board of Directors approved an additional 1,000,000 shares of common stock for issuance through the employee stock purchase plan. A total of 142,327, 66,019, and 46,934 shares were issued under this plan for the fiscal years ended August 31, 2000, 1999, and 1998, respectively. Shares available for issuance under this plan at August 31, 2000 were 874,438. The Company accounts for its employee stock purchase plan under the provisions of APB Opinion 25 and related interpretations.

14. STOCK OPTION PURCHASE AND RELOCATION COSTS

During fiscal 2000, the Company incurred expenses primarily comprised of charges related to the stock option tender offer and other purchases of outstanding stock options (Note 12), and to relocate certain sales associates to eight new regional sales offices. These costs have been included as a separate expense component on the accompanying consolidated income statement for the fiscal year ended August 31, 2000.

15. INCOME TAXES

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

YEAR ENDED AUGUST 31,	2000	1999	1998
Current:			
Federal	$ 7,131	$12,545	$24,620
State	1,698	2,046	4,067
Foreign	2,907	2,077	1,920
Deferred:			
Federal	(1,440)	(10,422)	(614)
State	(334)	(1,700)	(100)
	$9,962	**$ 4,546**	**$29,893**

In connection with a change in accounting principle, the Company also recognized a $1.5 million tax benefit in fiscal 1998.

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

YEAR ENDED AUGUST 31,	2000	1999	1998
Federal statutory tax rate	35.0%	(35.0)%	35.0%
State income taxes, net of federal effect	4.9	(3.5)	3.5
Goodwill amortization	56.4	44.6	2.3
Effect of foreign losses and tax rate differential	53.3	63.9	
Other	29.8	37.6	.7
	179.4%	**107.6 %**	**41.5%**

Goodwill amortization consists of non-deductible goodwill generated by the merger with Covey Leadership Center and certain other acquisitions. During the fiscal years ended August 31, 2000 and 1999, the effect of foreign losses is primarily comprised of losses sustained in Japan, Australia, and New Zealand for which no offsetting tax benefit could be recognized due to uncertainties related to future taxable income to offset such losses. Other items are comprised of various non-deductible expenses that occur in the normal course of business, but which had a magnified effect on the tax rate due to decreased taxable income in fiscal years 2000 and 1999 compared to prior years.

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

AUGUST 31,	2000	1999
Deferred income tax assets:		
Inventory and bad debt reserves	$ 4,574	$ 4,897
Sales returns and contingencies	3,648	2,248
Restructuring cost accruals	2,058	6,239
Vacation and other accruals	2,495	2,559
Deferred compensation	1,310	
Interest and other capitalization	362	855
Other	141	414
Total deferred income tax assets	14,588	17,212
Deferred income tax liabilities:		
Intangibles and fixed asset step-up	(29,342)	(30,896)
Depreciation and amortization	(2,370)	(1,537)
Other	(2,899)	(3,240)
Deferred income tax liabilities	(34,611)	(35,673)
Net deferred income tax liabilities	**$(20,023)**	**$(18,461)**

16. CHANGE IN ACCOUNTING PRINCIPLE

During fiscal 1998, the Emerging Issues Task Force (the "EITF") of the FASB issued consensus ruling 97-13, which specified the accounting treatment of certain business reengineering and information technology implementation costs. EITF 97-13 requires that certain costs which were previously capitalized to now be expensed as incurred. In addition, any previously capitalized costs that were incurred, and are addressed by EITF 97-13, were required to be written off.

The Company was involved in a business reengineering and information system implementation project that was principally completed during fiscal 1999. During the Project, the Company capitalized certain costs in accordance with accounting principles generally accepted in the United States. Certain previously capitalized costs of the Project were written off in accordance with EITF 97-13 as a cumulative adjustment in the Company's first quarter of fiscal 1998. During the remainder of fiscal 1998 and during fiscal 1999, the majority of the costs associated with the implementation Project were capitalized in accordance with EITF 97-13 and other related accounting standards.

17. EARNINGS PER SHARE

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

YEAR ENDED AUGUST 31,	2000	1999	1998
(Loss) income before accounting change	$ (4,409)	$ (8,772)	$42,138
Cumulative effect of accounting change, net of tax			(2,080)
Net (loss) income	(4,409)	(8,772)	40,058
Preferred stock dividends	8,005	1,875	
(Loss) income available to common shareholders	**$(12,414)**	**$(10,647)**	**$40,058**
Basic weighted-average shares outstanding	20,437	20,881	24,091
Incremental shares from the assumed exercise of stock options			635
Diluted weighted-average shares outstanding	**20,437**	**20,881**	**24,726**
(Loss) income from continuing operations per share:			
Basic	$ (.61)	$ (.51)	$ 1.75
Diluted	(.61)	(.51)	1.70
Cumulative effect of accounting change, net of tax, per share:			
Basic			(.09)
Diluted			(.08)
Net (loss) income per share:			
Basic	$ (.61)	$ (.51)	$ 1.66
Diluted	(.61)	(.51)	1.62

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

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

Options to purchase 1,661,875 shares of common stock with exercise prices ranging from $23.00 to $34.50 per share were outstanding during fiscal 1998 but were excluded in the calculation of diluted EPS because the exercise price was greater than the average market price of the common shares.

18. STATEMENTS OF CASH FLOWS

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

YEAR ENDED AUGUST 31,	2000	1999	1998
Cash paid for:			
Income taxes	$ (250)	$ 22,701	$ 15,961
Interest	7,353	9,219	5,991
Fair value of assets acquired	$ 21,444	$ 19,025	$ 18,943
Cash paid for net assets	(21,444)	(19,025)	(16,786)
Liabilities assumed from acquisitions	$ –	$ –	$ 2,157
Tax effect of exercise of affiliate stock options	$ 557	$ 1,320	$ 266

Non-Cash Investing and Financing Activities

In connection with the acquisition of DayTracker.com in December 1999 (Note 21), the Company issued $6.0 million of notes payable. The notes payable are due and payable in annual installments through December 2001 (Note 6).

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

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

As of August 31, 2000 and 1999, the Company had accrued $2.0 million and $1.9 million of Preferred Stock dividends. Subsequent to August 31, 2000, the Company paid the $2.0 million accrued dividend with cash. The accrued dividend at August 31, 1999 was paid during fiscal 2000 with additional shares of Preferred Stock.

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

19. SEGMENT INFORMATION

Reportable Segments

During fiscal 1999, the Company aligned its operations into the following three operating segments or Strategic Business Units ("SBUs"):

- Consumer Products
- Training and Education
- International

Although the Company is currently in the process of restructuring its operations, and expects to report segment data under the new structure in fiscal 2001, the above SBUs remain the primary management measurement tool until the new reporting structure is completed and implemented. The consumer products SBU is responsible for distribution of the Company's products through retail stores, catalog sales, mass markets, government channels, wholesale channels (including contract stationers), and the Internet. The training and education SBU, which includes Premier Agendas and the Personal Coaching division, is responsible for training, consulting and implementation services, and delivery of products to corporations, business, government, and educational institutions. The international SBU is responsible for the delivery of both products and services outside the United States. The "All Others" group consists primarily of the commercial sales of Publishers Press, which was sold in fiscal 2000, and the Institute of Fitness, which was sold during fiscal 1998. Intersegment sales consist primarily of paper planner sales from Publishers Press to the related Franklin Covey entities, which prepare and package the planners for sale to external customers. Corporate expenses consist primarily of essential internal support services such as finance, legal, information systems, and manufacturing and distribution and are allocated to the operational SBUs.

Each reportable segment is an operating division of the Company that has an executive vice-president who reports directly to the Company's Chief Executive Officer. The various corporate support departments are operated by an executive vice-president who also reports directly to the CEO. The Company accounts for its segment information on the same basis as the accompanying consolidated financial statements.

SEGMENT INFORMATION
(in thousands)

	Reportable Business Segments						
YEAR ENDED AUGUST 31, 2000	Consumer Products	Training and Education	International	Total	All Others	Corporate, Adjustments and Elimination	Consolidated
Sales to external customers	$302,944	$214,646	$49,955	$567,545	$17,654	$	$585,199
Intersegment sales					25,718	(25,718)	
Gross margin	166,760	136,879	32,862	336,501	1,967	(7,477)	330,991
Depreciation and amortization	18,527	20,367	1,945	40,839	1,027	3,301	45,167
Segment earnings (loss) before interest and taxes	23,116	(912)	(1,398)	20,806	(1,547)	(9,019)	10,240
Significant non-cash items:							
Restructuring charge reversals						(4,946)	(4,946)
Capital expenditures	7,103	4,582	2,265	13,950	317	10,256	24,523
Segment assets	71,992	299,301	23,694	394,987	35,457	162,035	592,479
YEAR ENDED AUGUST 31, 1999							
Sales to external customers	$269,285	$205,669	$50,513	$525,467	$29,456	$	$554,923
Intersegment sales					33,669	(33,669)	
Gross margin	151,061	131,748	30,900	313,709	2,099	(4,017)	311,791
Depreciation and amortization	11,090	18,741	2,062	31,893	1,395	6,251	39,539
Segment earnings (loss) before interest and taxes	25,548	1,053	(2,809)	23,792	(3,481)	(15,903)	4,408
Significant non-cash items:							
Restructuring charge						16,282	16,282
Loss on impaired assets	3,628	2,588	2,180	8,396	653	7,510	16,559
Capital expenditures	3,238	1,812	2,749	7,799	492	14,705	22,996
Segment assets	73,158	302,224	22,213	397,595	44,158	181,550	623,303
YEAR ENDED AUGUST 31, 1998							
Sales to external customers	$258,973	$207,015	$45,068	$511,056	$35,556	$	$546,612
Intersegment sales					29,626	(29,626)	
Gross margin	162,815	135,768	28,478	327,061	5,663		332,724
Depreciation and amortization	7,563	13,175	989	21,727	1,809	9,492	33,028
Segment earnings (loss) before interest and taxes	47,741	25,316	5,539	78,596	(3,866)	3,663	78,393
Capital expenditures	3,988	1,406	2,019	7,413	11,681	20,145	39,239
Segment assets	57,853	289,726	25,037	372,616	55,593	169,068	597,277

The primary measurement tool in segment performance analysis is earnings before interest and taxes ("EBIT"). Interest expense is primarily generated at the corporate level and is not allocated to the reporting segments. Income taxes are likewise calculated and paid on a corporate level (except for entities that operate within foreign jurisdictions) and are not allocated to reportable segments. Due to the nature of stock option purchase and relocation costs, they were not charged to reportable segments during fiscal 2000. Likewise, the restructuring charge recorded in fiscal 1999 was not allocated to the reporting segments in order to enhance comparability between periods. A reconciliation of reportable segment EBIT to consolidated EBIT is presented below (in thousands):

YEAR ENDED AUGUST 31,	2000	1999	1998
Reportable segment EBIT	$ 20,806	$ 23,792	$78,596
All others EBIT	(1,547)	(3,481)	(3,866)
Corporate items:			
Stock option purchase and relocation cost	(11,227)		
Restructuring charge		(16,282)	
Intercompany rent charges	6,652	6,844	6,772
Other	(4,444)	(6,465)	(3,109)
Consolidated EBIT	**$ 10,240**	**$ 4,408**	**$78,393**

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

YEAR ENDED AUGUST 31,	2000	1999	1998
Reportable segment assets	$394,987	$397,595	$372,616
All others assets	35,457	44,158	55,593
Corporate assets	173,129	230,251	229,764
Intercompany accounts receivable	(11,094)	(48,701)	(60,696)
Consolidated assets	**$592,479**	**$623,303**	**$597,277**

Enterprise-Wide Information

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

YEAR ENDED AUGUST 31,	2000	1999	1998
Sales:			
United States	$535,245	$504,388	$501,544
Americas	17,984	15,844	16,587
Japan/Greater China	14,517	16,614	9,741
Europe/Middle East	8,015	8,084	8,265
Australasia	6,919	6,629	6,141
Others	2,519	3,364	4,334
	$585,199	**$554,923**	**$546,612**
Long-Lived Assets:			
United States	$387,347	$400,989	$412,688
Americas	3,410	2,087	946
Japan/Greater China	7,038	6,346	5,046
Europe/Middle East	503	558	591
Australasia	1,146	1,677	2,713
	$399,444	**$411,657**	**$421,984**

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

20. MANAGEMENT COMMON STOCK LOAN PROGRAM

During fiscal 2000, the Company announced the implementation of an incentive-based compensation program that includes a loan program from external lenders to certain managers for the purpose of purchasing shares of the Company's common stock. The program gives management of the Company the opportunity to purchase shares of the Company's common stock on the open market, and from shares purchased by the Company, by borrowing on a full-recourse basis from the external lenders. The Company has facilitated the loans by providing a guarantee to the lenders. The program will total approximately $33.0 million and the Company has facilitated the purchase of open-market shares to ensure compliance with appropriate SEC trading rules and regulations. As of August 31, 2000, the Company had facilitated the purchase of 3,559,000 shares with a cost of $30.0 million for the loan program.

21. ACQUISITION AND DIVESTING ACTIVITIES

Fiscal 2000

Effective February 28, 2000, the Company sold the assets and substantially all of the business of its commercial printing division of Publishers Press. The Company has retained printing operations necessary for the production of its planners and other related products (now "Franklin Covey Printing"). The final sales price, after adjustments under terms of the purchase agreement, was $13.4 million and consisted of $11.0 million in cash and a $2.4 million note receivable to the Company over five years. Net cash proceeds to the Company from the sale totaled $6.4 million. The note receivable is secured by property and other assets specified in the purchase agreement. The Company also recognized a $0.3 million gain from the sale of these assets, which is included as a component of net other expense in the accompanying consolidated statement of income for the fiscal year ended August 31, 2000.

In December 1999, the Company purchased a majority interest in DayTracker.com, an on-line provider of scheduling and calendar services. The total purchase price was $11.0 million in cash and notes payable. The acquisition was accounted for using the purchase method of accounting and generated $9.0 million of intangible assets that are being amortized on a straight-line basis over five years. The acquired web site and its on-line scheduling and organizational services can be accessed on the Internet at www.franklincoveyplanner.com.

During September 1999, the Company acquired the assets of the Professional Resources Organization (the Jack Phillips Group) for $1.5 million in cash. The Professional Resources Organization is a leading measurement assessment firm specializing in measuring the impact and return on investment of training and consulting programs. The acquisition was accounted for using the purchase method of accounting and generated $1.5 million of intangible assets, which are being amortized over ten years.

Fiscal 1999

In January 1999, the Company acquired the assets of Khalsa Associates for $2.7 million in cash. Khalsa Associates is a leading sales training company. The acquisition was accounted for using the purchase method of accounting and generated $2.7 million of intangible assets, which are being amortized over ten years.

Effective August 1, 1998, the Company sold its Institute of Fitness located near St. George, Utah for $13.4 million in cash. During fiscal 1998, the Company also sold certain consulting units and discontinued its operations at certain international locations. The net impact of these divestitures was immaterial to the consolidated financial statements of the Company.

Fiscal 1998

Effective April 1, 1998, the Company acquired King Bear, Inc. ("King Bear"), a Tokyo, Japan based company. King Bear, a former Covey licensee, provides leadership and time management training as well as publishing services. The publishing division of King Bear translated and currently publishes *7 Habits of Highly Effective People* in Japanese. The cash purchase price was $5.3 million with additional contingent payments to be made over the following five years based upon the operating results of King Bear over that same period. During fiscal 2000, the remaining earnout period was canceled for $0.4 million in cash. The acquisition of King Bear was accounted for using the purchase method of accounting and generated $4.3 million of intangible assets, which are being amortized over 15 years.

22. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The unaudited quarterly financial information included on page 29 of the annual report to shareholders is an integral part of the consolidated financial statements.

23. SUBSEQUENT EVENT

Effective September 1, 2000, the Company entered into a joint venture with American Marketing Systems, Inc. ("AMS"), a major customer of the Company's Personal Coaching division. The new company, Franklin Covey Coaching, LLC, will continue to provide personal coaching services for the Company's customers. Under terms of the agreement, the Company and AMS will each own 50 percent of Franklin Covey Coaching, LLC and will be equally represented in the management of the new company. The Company contributed substantially all of the net assets of the Personal Coaching division to form the new entity. The Company expects that the new venture will broaden the curriculum and services currently offered in order to grow the personal coaching business over the long-term while maintaining a substantial portion of the Company's current earnings from coaching activities.

PART II

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

The Company's common stock is listed and traded on the New York Stock Exchange ("NYSE") under the symbol "FC." The following table sets forth, for the periods indicated, the high and low sale prices for the Company's common stock, as reported on the NYSE Composite Tape, for the fiscal years ended August 31, 2000 and 1999, respectively.

	High	Low
Fiscal Year Ended August 31, 2000:		
Fourth Quarter	$ 8 1/4	$ 6 3/8
Third Quarter	11 3/16	6 7/8
Second Quarter	10 3/16	6 13/16
First Quarter	8 11/16	7
Fiscal Year Ended August 31, 1999:		
Fourth Quarter	$ 9 1/2	$ 6 1/16
Third Quarter	13 1/16	9
Second Quarter	18 3/4	11 7/8
First Quarter	20 3/16	17 1/2

The Company did not pay or declare dividends on its common stock during the fiscal years ended August 31, 2000 and 1999. The Company currently anticipates that it will retain all available funds to finance its future growth and business expansion. The Company does not presently intend to pay cash dividends in the foreseeable future.

As of November 1, 2000, the Company had 20,643,182 shares of its common stock outstanding, held by approximately 350 shareholders of record.

Item 6. Selected Financial Data

The information required by this Item is on page 1 of the Company's 2000 Annual Report to Shareholders.

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

The information required by this Item is reported on pages 22 through 33 of the Company's 2000 Annual Report to Shareholders.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

The information required by this Item is reported on page 33 of the Company's 2000 Annual Report to Shareholders.

Item 8. Financial Statements and Supplementary Data

The information required by this Item is reported on pages 34 through 54 of the Company's 2000 Annual Report to Shareholders.

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

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by this Item is incorporated by reference to the sections titled "Election of Directors," "Executive Officers" and "Executive Compensation" in the Company's definitive Proxy Statement for the annual meeting of shareholders which is scheduled to be held on January 12, 2001. The definitive Proxy Statement will be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended. The Company's definitive Proxy Statement is included herein beginning on page 61.

Item 11. Executive Compensation

The information required by this Item is incorporated by reference to the sections titled "Election of Directors – Director Compensation" and "Executive Compensation" in the Company's definitive Proxy Statement for the annual meeting of shareholders which is scheduled to be held on January 12, 2001. The Company's definitive Proxy Statement is included herein beginning on page 61.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this Item is incorporated by reference to the section titled "Principal Holders of Voting Securities" in the Company's definitive Proxy Statement for the annual meeting of shareholders which is scheduled to be held on January 12, 2001. The Company's definitive Proxy Statement is included herein beginning on page 61.

Item 13. Certain Relationships and Related Transactions

The information required by this Item is incorporated by reference to the section titled "Certain Relationships and Related Transactions" in the Company's definitive Proxy Statement for the annual meeting of shareholders which is scheduled to be held on January 12, 2001. The Company's definitive Proxy Statement is included herein beginning on page 61.

PART IV

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

(a) Documents Filed

1. *Financial Statements*. The following Consolidated Financial Statements of the Company and Report of Independent Public Accountants included in the Annual Report to Shareholders for the year ended August 31, 2000, are included herewith;

   Report of Arthur Andersen LLP, Independent Public Accountants, for the years ended August 31, 2000, 1999 and 1998

   Consolidated Balance Sheets at August 31, 2000 and 1999

   Consolidated Statements of Income for the years ended August 31, 2000, 1999 and 1998

   Consolidated Statements of Shareholders' Equity for the years ended August 31, 2000, 1999 and 1998

   Consolidated Statements of Cash Flows for the years ended August 31, 2000, 1999 and 1998

   Notes to Consolidated Financial Statements

2. *Exhibit List.*

Exhibit No.	Exhibit	Incorporated by Reference	Filed Herewith
3.1	Revised Articles of Incorporation of the Registrant	(1)	
3.2	Amended and Restated Bylaws of the Registrant	(1)	
3.3	Articles of Amendment to Revised Articles of Incorporation of the Registrant (filed as Exhibit 2 to Schedule 13D).	(7)	
4.1	Specimen Certificate of the Registrant's Common Stock, par value $.05 per share.	(2)	
4.2	Stockholder Agreements, dated May 11, 1999 and June 2, 1999 (filed as Exhibits 1 and 3 to Schedule 13D).	(7)	
4.3	Registration Rights Agreement, dated June 2, 1999 (filed as Exhibit 4 to Schedule 13D).	(7)	
4.4	Subscription Offering of Nontransferable Rights to Purchase up to 750,000 Series A Preferred Shares at $100 per share.	(8)	
10.1	Amended and Restated 1992 Employee Stock Purchase Plan	(3)	
10.2	First Amendment to Amended and Restated 1992 Stock Incentive Plan	(4)	
10.3	Franklin 401(k) Profit Sharing Plan	(1)	
10.4	Forms of Nonstatutory Stock Options	(1)	
10.5	Lease Agreements, as amended and proposed to be amended, by and between Covey Corporate Campus One, LLC and Covey Corporate Campus Two, LLC (Landlord) and Covey Leadership Center, Inc. (Tenant) which were assumed by Franklin Covey Co. in the Merger with Covey Leadership Center, Inc.	(5)	
10.6	Notes Payable Purchase Agreement for $85.0 million of 6.6% unsecured senior notes payable, due May 2008.	(6)	
10.7	Jon H. Rowberry Promissory Note and Security Agreement, dated September 23, 1999.	(10)	
10.8	Credit Agreement with Bank One, NA and Zions First National Bank, dated October 8, 1999.	(9)	
10.9	Partnership Interest Purchase Agreement between the Company and DayTracker.com dated December 8, 1999.	(10)	
10.10	Amended and Restated 2000 Employee Stock Purchase Plan	(11)	
10.11	Asset Purchase Agreement by and Among Publishers Press, Inc., Franklin Covey Co., and Western Impressions Corporation, dated as of February 15, 2000.	(12)	
10.12	Sublease Agreement between Franklin Covey Co. and MyFamily.com, Inc. dated February 18, 2000. This sublease agreement is for office space leased under the terms of Exhibit 10.5.		**
10.13	Limited Liability Company Agreement of Franklin Covey Coaching LLC, dated September 1, 2000.		**
10.14	Facility and Guaranty Agreement among Franklin Covey Co., Bank One, NA, as Agent and The Financial Institutions Signatory Hereto dated March 2000.		**

Exhibit No.	Exhibit	Incorporated by Reference	Filed Herewith
10.15	First Amendment to Facility and Guaranty Agreement among Franklin Covey Co., Bank One, NA, as Agent and The Financial Institutions Signatory Hereto dated, May 2000.		**
10.16	Second Amendment to Facility and Guaranty Agreement among Franklin Covey Co., Bank One, NA, as Agent and The Financial Institutions Signatory Hereto, dated August 2000.		**
10.17	First Amendment to Credit Agreement with Bank One, NA and Zions First National Bank, dated March 2000.		**
10.18	Second Amendment to Credit Agreement with Bank One, NA and Zions First National Bank, dated May 2000.		**
10.19	Third Amendment to Credit Agreement with Bank One, NA and Zions First National Bank, dated August 2000.		**
10.20	Fourth Amendment to Credit Agreement with Bank One, NA and Zions First National Bank, dated August 2000.		**
10.21	Employment Agreement between Franklin Covey Co. and Robert A. Whitman.		**
21	Subsidiaries of the Registrant.		**
23	Consent of Arthur Andersen LLP, Independent Public Accountants.		**
27	Financial Data Schedule.		**
99.1	Report of Arthur Andersen LLP, Independent Public Accountants, on Consolidated Financial Statement Schedule for the years ended August 31, 2000, 1999, and 1998.		**
99.2	Valuation and Qualifying Accounts and Reserves Schedule. Financial statements and schedules other than those listed are omitted for the reason that they are not required or are not applicable, or the required information is shown in the Financial Statements or Notes thereto, or contained in this Report.		**

(1) Incorporated by reference to Registration Statement on Form S-1 filed with the Commission on April 17, 1992, Registration No. 33-47283.
(2) Incorporated by reference to Amendment No. 1 to Registration Statement on Form S-1 filed with the Commission on May 26, 1992, Registration No. 33-47283.
(3) Incorporated by reference to Report on Form 10-K filed November 27, 1992, for the year ended August 31, 1992.
(4) Incorporated by reference to Registration Statement on Form S-1 filed with the Commission on January 3, 1994, Registration No. 33-73728.
(5) Incorporated by reference to Report on Form 10-K filed December 1, 1997, for the year ended August 31, 1997.
(6) Incorporated by reference to Report on Form 10-Q filed July 14, 1998, for the quarter ended May 31, 1998.
(7) Incorporated by reference to Schedule 13D (CUSIP No. 353469109) as filed with the Commission on June 2, 1999.
(8) Incorporated by reference to Registration Statement on Form S-3 filed with the Commission on October 22, 1999, Registration No. 333-89541.
(9) Incorporated by reference to Report on Form 10-K filed November 23, 1999, for the year ended August 31, 1999.
(10) Incorporated by reference to Report on Form 10-Q filed January 11, 2000, for the quarter ended November 27, 1999.
(11) Incorporated by reference to Report of Form S-8 filed with the Commission on May 31, 2000, Registration No. 333-38172.
(12) Incorporated by reference to Report on Form 10-Q filed April 11, 2000, for the quarter ended February 26, 2000.
** Filed herewith and attached to this report.

(b) Reports on Form 8-K
None.

(c) Exhibits
Exhibits to this Report are attached following hereof.

(d) Financial Statement Schedule
See herein.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 27, 2000.

FRANKLIN COVEY CO.

By: /s/ ROBERT A. WHITMAN
Robert A. Whitman, Chairman of the Board of Directors and Chief Executive Officer

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

Signature	Title	Date
/s/ ROBERT A. WHITMAN Robert A. Whitman	Chairman of the Board and Chief Executive Officer	November 27, 2000
/s/ HYRUM W. SMITH Hyrum W. Smith	Vice Chairman of the Board	November 27, 2000
/s/ STEPHEN R. COVEY Stephen R. Covey	Vice Chairman of the Board	November 27, 2000
/s/ STEPHEN M. R. COVEY Stephen M. R. Covey	Executive Vice President and Director	November 27, 2000
/s/ J. SCOTT NIELSEN J. Scott Nielsen	Executive Vice President and Chief Accounting Officer	November 27, 2000
/s/ ROBERT H. DAINES Robert H. Daines	Director	November 27, 2000
/s/ E. J. “JAKE” GARN E. J. “Jake” Garn	Director	November 27, 2000

/s/ DENNIS G. HEINER Dennis G. Heiner	Director	November 27, 2000
/s/ BRIAN A. KRISAK Brian A. Krisak	Director	November 27, 2000
/s/ DONALD J. MCNAMARA Donald J. McNamara	Director	November 27, 2000
/s/ JOEL C. PETERSON Joel C. Peterson	Director	November 27, 2000
/s/ E. KAY STEPP E. Kay Stepp	Director	November 27, 2000
/s/ STEVEN C. WHEELWRIGHT Steven C. Wheelwright	Director	November 27, 2000

Notice of Annual Meeting of Shareholders

You are cordially invited to attend the Annual Meeting of Shareholders of Franklin Covey Co. (the "Company"), which will be held on Friday, January 12, 2001 at 11:00 a.m., at the Hyrum W. Smith Auditorium, 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331 (the "Annual Meeting"), for the following purposes:

(I) To elect four directors of the Company, each to serve a term of three years expiring at the annual meeting of shareholders of the Company to be held following the end of fiscal year 2003 and until their respective successors shall be duly elected and shall qualify;

(II) To consider and vote upon a proposal to ratify the approved performance award for the chief executive officer of the Company to qualify such compensation under Section 162(m) of the Internal Revenue Code of 1986;

(III) To consider and vote upon a proposal to ratify the amendment of the Company's Employee Stock Purchase Plan to extend the term of the plan to August 31, 2004 and to increase the maximum number of the Company's Common Stock subject to the plan by 1,000,000 shares;

(IV) To consider and vote upon a proposal to ratify the appointment of Arthur Andersen LLP as independent auditor of the Company for the fiscal year ending August 31, 2001; and

(V) To transact such other business as may properly come before the Annual Meeting or at any adjournment or postponement thereof.

The Board of Directors has fixed the close of business on November 17, 2000, as the record date for the determination of shareholders entitled to receive notice of and to vote at the Annual Meeting and at any adjournment or postponement thereof.

All shareholders are urged to attend the meeting.

By Order of the Board of Directors

Robert A. Whitman
Chairman of the Board
November 30, 2000

Proxy Statement

Important

Whether or not you expect to attend the Annual Meeting in person, to assure that your shares will be represented, please promptly complete, date, sign and return the enclosed proxy without delay in the enclosed envelope, which requires no additional postage if mailed in the United States. Your proxy will not be used it you are present at the Annual Meeting and desire to vote your shares personally.

SOLICITATION OF PROXIES

This Proxy Statement is being furnished to the shareholders of Franklin Covey Co., a Utah corporation (the "Company"), in connection with the solicitation by the Board of Directors of the Company of proxies from holders of outstanding shares of the Company's Common Stock, $0.05 par value per share (the "Common Stock") and outstanding shares of the Company's Series A Preferred Stock, no par value (the Series A Preferred Stock) for use at the Annual Meeting of Shareholders of the Company to be held on Friday, January 12, 2001, and at any adjournment or postponement thereof (the "Annual Meeting"). This Proxy Statement, the Notice of Annual Meeting of Shareholders and the accompanying form of proxy are first being mailed to shareholders of the Company on or about November 30, 2000.

The Company will bear all costs and expenses relating to the solicitation of proxies, including the costs of preparing, printing and mailing to shareholders this Proxy Statement and accompanying materials. In addition to the solicitation of proxies by use of the mails, the directors, officers and employees of the Company, without receiving additional compensation therefor, may solicit proxies personally or by telephone or telegram. Arrangements will be made with brokerage firms and other custodians, nominees and fiduciaries for the forwarding of solicitation materials to the beneficial owners of the shares of Common Stock held by such persons, and the Company will reimburse such brokerage firms, custodians, nominees and fiduciaries for reasonable out-of-pocket expenses incurred by them in connection therewith.

VOTING

The Board of Directors has fixed the close of business on November 17, 2000, as the record date for determination of shareholders entitled to notice of and to vote at the Annual Meeting (the "Record Date"). As of the Record Date, there were issued and outstanding 20,650,824 shares of Common Stock and 811,094 shares of Series A Preferred Stock. The holders of record of the shares of Common Stock on the Record Date entitled to be voted at the Annual Meeting are entitled to cast one vote per share on each matter submitted to a vote at the Annual Meeting. The holders of record of Series A Preferred Stock on the Record Date are entitled to cast that number of votes equal to the number of shares of Common Stock each share of Series A Preferred Stock could be converted into, approximately 7.14 votes per share of Series A Preferred Stock or an aggregate of approximately 5,793,529 votes for all of the Series A Preferred Stock. The shares of Common Stock and Series A Preferred Stock vote together as a single class.

Proxies

Shares of Common Stock and Series A Preferred Stock which are entitled to be voted at the Annual Meeting and which are represented by properly executed proxies will be voted in accordance with the instructions indicated on such proxies. If no instructions are indicated, such shares will be voted FOR the election of each of the four director nominees, FOR the ratification of the proposed executive performance award, FOR the ratification of the amendment of the Employee Stock Purchase Plan to extend the term of the plan and to increase the maximum number of shares in the plan by 1,000,000, FOR the ratification of the appointment of Arthur Andersen LLP as the independent auditor of the Company for the fiscal year ending August 31, 2001, and in the discretion of the proxy holder as to any other matters which may properly come before the Annual Meeting. A shareholder who has executed and returned a proxy may revoke it at any time prior to its exercise at the Annual Meeting by executing and returning a proxy bearing a later date, by filing with the Secretary of the Company, at the address set forth above, a written notice of revocation bearing a later date than the proxy being revoked, or by voting the Common Stock covered thereby in person at the Annual Meeting.

Vote Required

A majority of the votes entitled to be cast at the Annual Meeting is required for a quorum at the Annual Meeting. Abstentions and broker non-votes are counted for purposes of determining the presence or absence of a quorum for the transaction of business. In the election of the directors, the four nominees receiving the highest number of votes will be elected. Accordingly, abstentions and broker non-votes will not affect the outcome of the election. The ratification of the proposed executive performance award, the ratification of the amended Employee Stock Purchase Plan, the ratification of the appointment of Arthur Andersen as independent auditor for the Company, and the approval of other matters which may properly come before the meeting generally requires that the number of votes cast in favor of the proposal exceed the number of votes cast in opposition. Abstentions and broker non-votes will not affect the outcome of any such matter. Holders of shares of Common Stock are entitled to one vote at the Annual Meeting for each share of Common Stock held of record at the Record Date.

ELECTION OF DIRECTORS

At the Annual Meeting, three directors of the Company are to be elected to serve three-year terms expiring at the annual meeting of shareholders to be held following the end of fiscal year 2003 and until their successors shall be duly elected and qualified. If any of the nominees should be unavailable to serve, which is not now anticipated, the proxies solicited hereby will be voted for such other persons as shall be designated by the present Board of Directors. The four nominees receiving the highest number of votes at the Annual Meeting will be elected.

Nominees for Election to the Board of Directors

Certain information with respect to the nominees is set forth below.

Joel C. Peterson, 53, has been a director of the Company since May 1997. Mr. Peterson served as a director of Covey Leadership Center ("Covey") from 1993 to 1997 and as Vice Chairman of Covey from 1994 to 1997. Mr. Peterson is also chairman of Peterson Ventures, Inc., a privately-held equity investment firm and is chairman of the board of directors for Essex Capital, a real estate development and management company. Mr. Peterson also serves on the boards of directors of Road Rescue, Dermody Properties, AccuDocs, JetBlue and Bay Logics, Inc. Mr. Peterson earned his MBA from Harvard Business School.

E. Kay Stepp, 55, has been a director of the Company since May 1997. Ms. Stepp served as a director of Covey from 1992 to 1997. Ms. Stepp is the former president and chief operating officer of Portland General Electric, an electric utility, and former chairman of the board of Gardenburger, Inc. (NASDAQ). Ms. Stepp is also currently a director of StanCorp Financial Group (NYSE), Planar Systems, Inc. (NASDAQ), and is a founding director of the Bank of the Northwest. She is a former director of the Federal Reserve Bank of San Francisco. She received her Bachelor of Arts degree from Stanford University and a Master in Arts in Management from the University of Portland and attended the Stanford Executive Program.

Steven C. Wheelwright, 57, has been a director of the Company since January 1999. Dr. Wheelwright is currently on a 3 year leave of absence from the Board of Directors residing in England as a mission president for the Church of Jesus Christ of Latter-day Saints. Prior to serving the mission, Dr. Wheelwright was the Edsel Bryant Ford Professor of Business Administration at Harvard Business School. He also served as Senior Associate Dean responsible for faculty hiring and planning. Dr. Wheelwright has also taught at Stanford University's Graduate School of Business and has authored several texts presenting concepts and tools proven effective in product and process development.

Robert A. Whitman, 47, has been a director of the Company since May 1997 and has served as Chairman of the Board of Directors since June 1999 and Chief Executive Officer of the Company since July 1999. Mr. Whitman served as a director of Covey from 1994 to 1997. Prior to joining the Company, Mr. Whitman served as president and co-chief executive officer of the Hampstead Group L.L.C., a privately-held equity investment firm based in Dallas, Texas, from 1992 to 2000. Mr. Whitman received his Bachelor of Arts degree in Finance from the University of Utah and his MBA from Harvard Business School.

Directors Whose Terms of Office Continue

In addition to the directors to be elected at the Annual Meeting, the directors named below will continue to serve their respective terms of office as indicated. Stephen M. R. Covey, Robert H. Daines, E. J. "Jake" Garn and Donald J. McNamara are currently serving terms which expire at the annual meeting of the Company's shareholders to be held following the end of fiscal year 2001. Stephen R. Covey, Dennis G. Heiner, Brian A. Krisak and Hyrum W. Smith are currently serving terms which expire at the annual meeting of the Company's shareholders to be held following the end of fiscal year 2002. Brief statements setting forth certain biographical information concerning each continuing director appear below.

Stephen M. R. Covey, 38, has been Executive Vice President of the Company since May 1997 responsible for Organizational Solutions. From 1994 to 1997, Mr. Covey served as President and Chief Executive Officer of Covey. Mr. Covey joined Covey in 1989, serving in various capacities prior to his appointment as President and Chief Executive Officer, including Vice President of Client Services Group, Vice President of Corporate Development, and Managing Consultant. Mr. Covey earned an MBA from Harvard Business School and has professional work experience in different industries, including real estate development with Trammell Crow Company in Dallas, Texas. Mr. Covey is the son of Stephen R. Covey, Vice-Chairman of the Board of Directors. Mr. Covey's term as a director expires in 2001.

Robert H. Daines, 66, has been a director of the Company since April 1990. Dr. Daines is the Driggs Professor of Strategic Management at Brigham Young University, where he has been employed since 1959. Dr. Daines also currently serves on the board of directors for Volvo Commercial Credit Corporation and Alta Technology. Dr. Daines received his MBA from Stanford and his DBA from Indiana University. Mr. Daines's term as a director expires in 2001.

E. J. "Jake" Garn, 68, was elected to serve as a director of the Company in January 1993. Mr. Garn is managing director of Summit Ventures, LLC with offices in Salt Lake City and Washington, DC. From December 1974 to January 1993, Mr. Garn was a United States Senator from the State of Utah. During his term in the Senate, Mr. Garn served six years as Chairman of the Senate Banking, Housing and Urban Affairs Committee and served on the Appropriations, Energy and Natural Resources, and Senate Rules Committees. Prior to his election to the Senate, Mr. Garn served as Mayor of Salt Lake City, Utah, from January 1972 to December 1974. Mr. Garn also currently serves as a director of Morgan Stanley Dean Witter Advisors (NYSE), NuSkin Asia Pacific Corporation (NYSE) and BMW Bank, NA (NASDAQ), and is a member of the Board of Trustees of Intermountain Health Care. Mr. Garn's term as a director expires in 2001.

Donald J. McNamara, 47, was appointed to serve as a director of the Company in June 1999. Mr. McNamara is the founder of the Hampstead Group, L.L.C., a privately-held equity investment firm based in Dallas, Texas, and has served as its Chairman since its inception in 1989. He currently serves as Chairman of the Board of Directors of FelCor Lodging Trust (NYSE). Mr. McNamara also currently serves as a director of Legend Airlines, a director of Omega Healthcare Investors, Inc. (NYSE), a trustee of Saint Mark's School, a trustee of the Virginia Tech Foundation, and a member of the Urban Land Institute. He received his undergraduate degree from Virginia Tech and his MBA in 1978 from Harvard University. Mr. McNamara's term as a director expires in 2001.

Hyrum W. Smith, 57, a co-founder of the Company, has served as a director of the Company since December 1983 and has served as Vice Chairman of the Board of Directors since June 1999. Mr. Smith served as Chairman of the Board of Directors from December 1986 to June 1999. Mr. Smith served as the Chief Executive Officer of the Company from February 1997 to March 1998, a position he also held from April 1991 to September 1996. He was Senior Vice President of the Company from December 1984 to April 1991. Mr. Smith is author of *The Ten Natural Laws of Time and Life Management* and *What Matters Most.* He is also a director of SkyWest, Inc. (NASDAQ), Greater Salt Lake Area Red Cross, and on the Advisory Board for the University of Utah School of Business. Mr. Smith's term as a director expires in 2002.

Stephen R. Covey, 68, has been Vice Chairman of the Board of the Company since June 1999. Dr. Covey Served as Co-Chairman of the Board of Directors from May 1997 to June 1999. Dr. Covey founded Covey Leadership Center and served as its Chief Executive Officer and Chairman of the Board from 1980 to 1997. Dr. Covey received his MBA degree from Harvard Business School and his doctorate from Brigham Young University, where he was a professor of organizational behavior and business management from 1957 to 1983, except for periods in which he was on leave from teaching, and served as Assistant to the President and Director of University Relations. Dr. Covey is the author of several acclaimed books, including *The 7 Habits of Highly Effective People, Principle-Centered Leadership, The 7 Habits of Highly Effective Families,* and the co-author of *First Things First.* His newest books, *The Nature of Leadership,* co-authored with Roger Merrill and DeWitt Jones, and *Living the 7 Habits: Stories of Courage and Inspiration* were introduced in 1999. He is also a director of Points of Light foundation and a fellow of the Center for Organizational and Technological Advancement at Virginia Tech. Dr. Covey is the father of Stephen M. R. Covey, a director and Executive Vice President of the Company. Dr. Covey's term as a director expires in 2002.

Dennis G. Heiner, 57, was appointed as a director of the Company in January 1997. Mr. Heiner has served as president and chief executive officer of Werner Co., a leading manufacturer of climbing products and aluminum extrusions, since 1999. Prior to joining Werner, he was employed by Black & Decker Corporation from 1985 to 1999 where he served as Executive Vice President and President of the Security Hardware Group, a world leader in residential door hardware. Mr. Heiner's term as a director expires in 2002.

Brian A. Krisak, 49, was appointed to the Board of Directors in June 1999. Mr. Krisak is a principal of the Hampstead Group L.L.C., a privately-held equity investment firm based in Dallas, Texas. Mr. Krisak joined The Hampstead Group in January 1999. Prior to joining Hampstead, Mr. Krisak served as vice president and general manager of PICO, Inc., a satellite and wireless communications firm in the transportation industry, from 1997 to 1999 and owned and operated Krisak Consulting from 1993 to 1997. He also has served as chief executive officer of the Columbia-Free State Health System, president of Nicholas Coffee and sr. vice president of Elkin's Coffee. He received his degree in Government and Law from Lafayette College in 1973 and his MBA in 1978 from Harvard University. Mr. Krisak's term as a director expires in 2002.

Committees, Meetings and Reports

The Board of Directors has standing Executive, Audit, Nominating and Compensation Committees. The Executive Committee presently consists of Messrs. Joel Peterson, Chairperson and Robert Whitman. The members of the Audit Committee are Messrs. Jake Garn, Chairperson, Robert Daines and Joel Peterson. The Nominating Committee consists of Messrs. Stephen R. Covey and Hyrum Smith. The Compensation Committee consists of Ms. Kay Stepp, Chairperson, and Messrs. Dennis Heiner, Brian Krisak, Robert Daines and Steven Wheelwright, a member of the committee who is on a three-year leave of absence from the Board.

The Executive Committee met four times during the 2000 fiscal year. Its functions are to oversee: the day-to-day operations of the Company, employment rights and compensation of designated key employees and to make recommendations with respect thereto to the Compensation Committee and the Board of Directors; and to establish the agenda for the Board of Directors meetings.

The Audit Committee met six times during the 2000 fiscal year. Its functions are: (i) to review and approve the selection of, and all services performed by, the Company's independent auditors; (ii) to review the Company's internal controls and audit functions; and (iii) to review and report to the Board of Directors with respect to the scope of internal and external audit procedures, accounting practices and internal accounting, and financial and risk controls of the Company.

The Nominating Committee met once during the 2000 fiscal year. The Nominating Committee has exclusive authority to nominate individuals for election to the following offices: President, Chief Executive Officer, Chief Financial Officer and individuals to be nominated by the Board of Directors to serve on the Board of Directors or committees of the Board.

The Compensation Committee met four times during the 2000 fiscal year. Its functions are: (i) to review, and make recommendations to the Board of Directors regarding the salaries, bonuses and other compensation of the Company's Chairman of the Board and executive officers; and (ii) to review and administer any stock option, stock purchase plan, stock award plan and employee benefit plan or arrangement established by the Board of Directors for the benefit of the executive officers and employees of the Company.

During the 2000 fiscal year, there were six meetings held by the Board of Directors of the Company. All directors attended more than 75 percent of the board meetings. No director attended fewer than 75 percent of the total number of meetings of the committees on which he or she served.

Director Compensation

Messrs. Robert A. Whitman, Brian A. Krisak, Donald J. McNamara, Stephen M. R. Covey and Stephen R. Covey do not currently receive compensation for Board or committee meetings. Remaining directors are paid as follows: an annual retainer of $16,000, with the exception of the committee chairpersons who are paid an annual retainer of $18,000; $2,000 for attending each Board meeting; $1,333 for participating in each telephone Board meeting; $1,000 for attending each committee meeting, with the exception of the committee chairperson who is paid $1,100; and $667 for participating in committee meetings held by telephone, with the exception of the committee chairperson who receives $773. Directors are reimbursed by the Company for their out-of-pocket travel and related expenses incurred in attending all Board and committee meetings.

EXECUTIVE OFFICERS

In addition to Messrs. Whitman and Stephen M. R. Covey, certain information is furnished with respect to the following executive officers of the Company:

Val John Christensen, 46, has been Secretary and General Counsel of the Company since January 1990 and an Executive Vice President since March 1996. Mr. Christensen served as a director of the Company from July 1991 to June 1997. From January 1990 to March 1996, Mr. Christensen served as a Senior Vice President of the Company. From March 1987 to November 1989, Mr. Christensen was engaged in the private practice of law with the law firm of LeBoeuf, Lamb, Lieby & MacRae, specializing in general business and business litigation matters. From 1983 until he joined the Company, Mr. Christensen acted as outside counsel to the Company.

John R. Harding, 41, has been Executive Vice President ñ Marketing and Solutions for the Company since October 1999. He joined the company in February 1994, through the acquisition of Shipley Associates where he served as Chief Executive Officer. He served as Vice President of the Company from 1994 to 1999 with responsibilities for the consultant delivery of training programs, strategy, and innovation. Mr. Harding earned a Masters of Management from Northwestern University. He is also a certified facilitator of The 7 Habits of Highly Effective People and a Certified Public Accountant (CPA).

Don J. Johnson, 52, has been Executive Vice President - Manufacturing / Distribution and Call Center of the Company since May 1996 responsible for the manufacturing, printing, packaging and distribution of the Company's product line. From 1986 to 1996, Mr. Johnson was employed by Valleylab, a division of Pfizer, Inc., a medical device manufacturing and distributing company in Boulder, Colorado, as Director of both Domestic and International Manufacturing and Distribution. Mr. Johnson has more than 29 years of manufacturing and distribution management experience in both the U.S. and international markets.

Darl McBride, 41, recently joined the Company as the President of www.franklincoveyplanner.com, the on-line services group of the Company and Executive Vice President of Business Development. Mr. McBride served previously as the CEO of PointServe, Inc., an on-line service fulfillment company and was the founder and CEO of SolutionBank, Inc., a web services integration company. Additionally, he held various executive management positions at Novell, Inc., for eight years. Mr. McBride has held executive positions in the technology industry for nearly twenty years, during which time he has established domestic and international industry partnerships with such companies as Softbank, Sony, Canon, Microsoft, IBM, Compaq and HP. Mr. McBride was listed as one of the top twenty executives to watch, CRN 1996, and holds a Bachelor of Arts from Brigham Young University and a Master of Arts from Illinois University.

Mikell Rigg McGuire, 35, has been Executive Vice President of the International Division since February 1999. Ms. Rigg McGuire joined the Company in 1990 in International Sales. She has held various positions within the Company including Vice President of Sales in Canada, General Manager of the Canadian office and Area Vice President of the Americas.

Scott Nielsen, 42, has been Executive Vice President and Interim Chief Financial Officer of the Company since January 2000. He joined the Company in 1994 and has held various finance positions including Vice President of Finance and Controller with duties including mergers, acquisitions, divestitures, and performance analysis. Prior to joining the Company, Mr. Nielsen was a senior audit manager for Price Waterhouse. Mr. Nielsen is a Certified Public Accountant (CPA).

Marva Sadler, 43, has been Executive Vice President of Business Plan Implementation, responsible for implementation of major corporate operational improvement initiatives, since joining the Company in March of 2000. She also serves as CFO/COO of the CSG Division. Prior to joining the company, Ms. Sadler was with Achieve Global from 1996-2000 as Executive Vice President of Operations, and CFO/CEO at Baron Woolen Mills from 1993-1996, and spent several years in management consulting with Marakon Associates, and Bain & Co.

Douglas Smith, 46, has been Executive Vice President of Technology and e-Commerce, On-line and Electronic Products since October, 1999. Mr. Smith joined the Company in November 1998 as Vice President of the Electronics Solutions Division. Prior to joining the Company, Mr. Smith was employed at Sequent Computers for 12 years in various marketing and business development roles.

Michael O. Willis, 45, is joined the Company this year as Executive Vice President of Global Sales and Alliances. Mr. Willis is responsible for corporate business development and partnering programs worldwide. Mr. Willis brings more than 25 years of experience to the Company having held executive management positions with several Fortune 100 corporations and having developed significant expertise in strategic planning, marketing and sales management, change and operations management and information technology. Prior to joining the Company, Mr. Willis spent five and half years with IBM Global Service. Mr. Willis holds a MBA in Management Science and is currently completing his Doctorate in Business Administration.

D. Gordon Wilson, 48, has been an Executive Vice President of the Company since March 1996 responsible for retail store operation and direct product sales. Mr. Wilson served as a Senior Vice President of the Company responsible for the Retail Stores Division and the Marketing Division since January 1995 and September 1995, respectively. From 1989 to 1994, he was Group Vice President and General Merchandise Manager of the Home Division and Apparel Division of Fred Meyer, Inc. Mr. Wilson held various buying and merchandising positions at Fred Meyer, Inc. from 1983 to 1989.

EXECUTIVE COMPENSATION

The compensation of Robert A. Whitman, the Company's Chief Executive Officer and the four other most highly paid executive officers during the fiscal year ended August 31, 2000 is shown on the following pages in three tables and discussed in a report from the Compensation Committee of the Board of Directors.

Summary Compensation Table

	Annual Compensation				Long Term Compensation Awards		
Name and Position	Fiscal Year	Salary	Bonus	Other Annual Compensation(1)	Restricted Stock Awards(2)	Options/ SARs(#)(3)	All Other Compensation(4)
Robert A. Whitman	2000	$336,539	$375,000	$22,990	$ _	_	$ _
Chairman and Chief	1999	_	_	14,000	_	_	_
Executive Officer	1988	_	_	18,000	_	_	_
Val John Christensen	2000	320,708	150,000	_	_	_	8,808
Executive Vice President	1999	163,323	90,000	_	_	90,300	4,771
and Secretary	1998	156,667	71,820	_	_	_	2,891
Stephen M. R. Covey	2000	225,885	188,000	_	_	_	6,399
Executive Vice President	1999	181,731	90,000	_	_	25,000	4,800
	1998	195,769	216,375	_	_	_	4,754
Don J. Johnson	2000	174,423	130,000	_	_	_	5,916
Executive Vice President	1999	156,821	121,170	–	–	30,000	4,431
	1998	156,250	71,820	–	–	49,000	3,790
John R. Harding	2000	168,654	125,000	–	–	–	7,597
Executive Vice President	1999	136,218	37,584	–	–	55,000	4,038
	1998	137,740	18,726	–	–	–	8,812

(1) Includes compensation paid to Mr. Whitman as a member of the Board of Directors for fiscal year 1999 and 1998 and a travel allowance for fiscal year 2000.

(2) Restricted stock awards vest in full four years from the date of grant. No vesting occurs prior to four years from grant. Holders of restricted shares are entitled to vote the shares. The number of shares granted to each of the persons named in the foregoing table and the value of restricted shareholdings at the end of the fiscal year is as follows:

Name	Number Of Shares	Value at August 31, 2000
Val John Christensen	4,000	$26,500
Don J. Johnson	1,000	6,250
Val John Christensen	1,000	6,250

(3) Amounts shown reflect options granted to the named executive officers pursuant to the Franklin Covey 1992 Stock Incentive Plan (the "Incentive Plan"). As of August 31, 2000, the Company had not granted any stock appreciation rights.

(4) Amounts shown reflect contributions made by the Company for the benefit of the named executive officers under the Franklin Covey 401(k) Profit Sharing Plan.

Option/SAR Grants in Last Fiscal Year

During the fiscal year ended August 31, 2000, the Company did not grant any stock options or stock appreciation rights to the persons named in the preceding Summary Compensation Table.

Aggregated Option/SAR Exercises in Last Fiscal Year and Fiscal Year Option/SAR Values

The following table sets forth the number of shares of Common Stock acquired during the fiscal year ended August 31, 2000, upon the exercise of stock options, the value realized upon such exercise, the number of unexercised stock options held on August 31, 2000, and the aggregate value of such options held by the persons named in the Summary Compensation Table. This table reflects options to acquire shares of Common Stock granted to the named individuals by the Company and by certain affiliates of the Company. As of August 31, 2000, the Company had not granted any stock appreciation rights to any of the executive officers named below.

			Number of Unexercised Options at August 31, 2000		Value of Unexercised In-the-Money Options at August 31, 2000(2)	
Name	Number of Shares Acquired on Exercise	Value Realized on Exercise(1)	Exercisable	Unexercisable	Exercisable	Unexercisable
Robert A. Whitman	_	$ _	_	_	$ _	$ _
Val John Christensen	_	_	27,825	71,475	34,605	_
Stephen M. R. Covey	_	_	6,250	18,750	_	_
Don J. Johnson	_	_	15,000	5,000	_	_
John R. Harding	_	_	51,834	39,166	_	_

(1) Reflects the difference between the exercise price of the options exercised and the market value of the Common Stock on the date of such exercise, as reported by the New York Stock Exchange.
(2) Reflects the difference between the exercise price of the unexercised options and the market value of the Common Stock on August 31, 2000. The last sale price of the Common Stock on August 31, 2000, as reported by the New York Stock Exchange, was $6.625 per share.

Employment Agreements

The Company does not have an employment agreement with any of its named executive officers, other than Robert A. Whitman, the President, Chief Executive Officer and Chairman of the Board.

In an effort to develop a compensation agreement that would create a strong link in both pay for performance and shareholder value creation, the Board and Mr. Whitman have directly linked Mr. Whitman's annual performance award and long-term compensation to measures that create value and increase the price of the Company's Common Stock. The performance award's unusual structure differs from normal executive compensation programs in that the annual performance pay is tied to very aggressive growth goals and the long-term compensation is awarded only after most shareholders have benefited from a substantial increase in share price. For example, for fiscal year 2001, Mr. Whitman would receive no performance pay until an approximate 36% increase in EBITDA is achieved and would not receive a full reward unless an 84% increase in EBITDA is achieved. Though subsequent years' performance requirements may not necessarily be that aggressive, the hurdle tied to value creation is expected to be high. The Company's outside compensation consultants advised the Board that long-term compensation is typically bench-marked by company size and is usually granted at current market price. However,to emphasize pay for performance, the options granted to Mr. Whitman have an unusually conservative vesting schedule and grant price, consistent with Mr. Whitman's desire that value be created for existing shareholders before he receives long-term compensation rewards. The award provides for no vesting for seven years (and only then if currently employed) of any of the options unless the market price of the Company's stock price reaches certain levels which would increase shareholders value by approximately 300% to 700% over that time period. The grant price of $14.00 is also well above the current market price. The Board and Mr. Whitman have designed this compensation package with the intent that existing shareholders would benefit prior to Mr. Whitman receiving meaningful compensation.

On September 1, 2000, the Company entered into an employment agreement with Robert A. Whitman, as President and Chief Executive officer of the Company. In addition, the Company agreed to use its best efforts to continue Mr. Whitman in his position as chairman of the board of directors. The agreement has an initial term expiring August 31, 2007, and provides for an annual base salary paid retroactively from December 31, 1999, of $500,000, to be reviewed annually by the Compensation Committee. The base salary may be increased, but not decreased, during the term of the agreement. The Employment Agreement provides for an annual bonus, to be paid based on the attainment of performance objectives determined by the Compensation Committee. The bonus can range from 0 percent to 150 percent of the base salary. A substantial portion of Mr. Whitman's annual performance bonus will be based upon the Company meeting EBITDA targets established by the Compensation Committee. The remaining portion of Mr. Whitman's annual bonus will be determined based on reaching other targets established by the Compensation Committee on an annual basis which may include such things as: meeting target dates for development of specific projects, meeting sales goals for individual products or business areas, increasing revenues and/or market penetration associated with products or groups of products, successful development and introduction of new products, attracting and retaining key employees, implementing business strategies, identifying and negotiating business transactions, and other items that may be established by the Compensation Committee from time to time.

Mr. Whitman was also granted an option to acquire 1,602,000 shares of common stock, with an exercise price of $14.00 per share. This option will not be exercisable until August 31, 2007. However, acceleration of that exercise date for all or a portion of those options may occur if the average closing sales price of the Company's Common Stock achieves certain levels prior to that date based on a schedule determined by the average closing sales price of the Company's common stock for the preceding 90 consecutive trading days. This schedule ranges from $20.00 per share at which point half of the options will be exercisable to $50.00 per share at which point all of the options will be exercisable. If not exercised, the options expire August 31, 2010. If Mr. Whitman elects to exercise all or a portion of the option, the Company has agreed to lend the exercise price, plus the aggregate amount of federal, state, and local income taxes incurred by Mr. Whitman as a result of such exercise, to Mr. Whitman, to facilitate the exercise. Any such loan will become due and payable at the time the shares of common stock purchased with the loan proceeds are sold or otherwise disposed of by Mr. Whitman or, in the event there is no such sale or disposition, five years after the date the loan was made. The loan will bear interest and be subject to the same terms and conditions as loans to key employees under the Company's Management Stock Purchase Loan program. Mr. Whitman will also be entitled to participate in all Company sponsored employee benefit plans and will be reimbursed for all expenses incurred on behalf of the Company.

In the event that the Company elects to terminate the agreement for any reason other than for "cause" as specified in the agreement, it will owe to Mr. Whitman an amount equal to two and a half times the then current base salary, compensation for his unused vacation days, a pro rata portion of the bonus that would have been earned by Mr. Whitman for the year in which the termination occurred, an amount equal to two and a half times the average annual incentive compensation paid to Mr. Whitman for the three fiscal years immediately preceding the fiscal year in which his employment is terminated, and any payments due to Mr. Whitman under the Company's other employment benefit plans. In addition, Mr. Whitman would be entitled to continued medical, dental, and other health benefits on payment of any amounts typically charged by the Company to similar situated employees. To the extent that any stock options held by Mr. Whitman are currently exercisable as of the date of termination, they will continue to be exercisable for a period of five years following his date of termination or, if sooner, August 31, 2010.

In the event there is a change in control of the Company as defined in the Agreement that is not approved by the current board of directors or successor directors nominated by at least a two-thirds majority of existing directors, and, during the 24 month period following the date of the change in control, Mr. Whitman's employment is terminated for any reason other than cause, or by Mr. Whitman for good reason, as defined in the agreement, the Company will pay all termination amounts set forth above to Mr. Whitman and, in addition, all of the options held by Mr. Whitman will immediately vest and become exercisable. If the change of control has been approved by the incumbent board, 801,000 shares of any non-vested options shall become immediately vested. In the event that it is determined that any of the payments to Mr. Whitman on termination or change in control are subject to an excise tax under Section 4999 of the Internal Revenue Code of 1986, as amended, Mr. Whitman shall be entitled to receive an additional payment so that, after payment of all taxes, including the exercise tax, Mr. Whitman would retain an additional amount equal to the exercise tax. During the term of the agreement and for a period of three years thereafter, Mr. Whitman has agreed not to engage in any competitive activity with the Company. In addition, Mr. Whitman agrees not to attempt to solicit or hire key employees of the Company for a period of two years after termination of the agreement.

Compensation Committee Report

The report was prepared by the Compensation Committee of the Board of Directors (the "Committee"), which is composed of independent directors who are not employees of the Company or its subsidiaries. The Committee has responsibility for all compensation matters for the Company's Chairman and the Company's President and Chief Executive Officer (the "Key Executives"). It also has the responsibility of administering the Incentive Plan. The Key Executives determine the amount of cash compensation for executive officers other than the Key Executives. The Committee determines the amount of cash compensation under the Incentive Plan for all executive officers, including the Key Executives. The current members of the Committee are Kay Stepp, who serves as Chairperson, Robert Daines, Dennis Heiner, Brian Krisak and Steven Wheelwright. The Committee met four times during fiscal year 2000.

Executive Compensation Philosophy. In 1997 and then revised in 2000, an executive compensation strategy and structure was created with assistance from the Board's consultants, Schuster-Zingheim and Associates. The executive compensation program enables the Company to attract, motivate and retain senior management by providing a competitive total compensation opportunity. Variable performance-based cash incentive awards are an important element of the Company's cash compensation philosophy. The Committee believes the executive compensation program strikes an appropriate balance between short- and long-term performance objectives.

The overall executive compensation objective is pay for performance. The strategy is based on the following principles: (1) compensation is aligned with achieving the Company's strategic business plan and is directly related to performance and value added; (2) compensation promotes shared destiny and teamwork; (3) compensation attracts and retains qualified executives; (4) the greater the amount of direct influence on organizational performance, the greater the portion of pay at risk; (5) stock ownership plans, such as executive stock loan programs or stock option issuance, aligns executive and shareholder interests in building Company value and will be used as an incentive to executives for increasing Company value.

Key Executive Compensation. Key Executive Compensation consists of annual salaries and additional compensation in the form of cash performance-based bonuses, stock ownership plans, stock options and restricted stock awards as the Committee in its discretion awards to the Key Executives. The annual salaries of the Key Executives are set at amounts that are deemed competitive for executives with comparable ability and experience, taking into account existing salaries with respect to executives in companies comparable in size and complexity to the Company. Performance-based bonuses were awarded to the Key Executives in 2000 reflecting the Company's overall performance.

Chairman, President and Chief Executive Officer's Compensation. Mr. Whitman's compensation for fiscal year 2000 was determined pursuant to the principles described above. The Committee concluded that the annual performance bonus for 2000 paid to Mr. Whitman fairly and adequately compensates him based on the overall performance of the Company.

Executive Stock Ownership Program. The Company believes it is essential for all executive officers to have a vested interest in the Company, thereby aligning the long-term interest of executives with those of stockholders. Each executive officer is required (encouraged?) to accumulate and maintain ownership in the Company equal to 25 percent of their annual income, including performance-based bonuses. In this connection, the Company has facilitated personal loans to the executives through lending institutions to buy the stock on the open market. The stock acts as collateral for the full-recourse loans with the Company providing a guarantee to the lending institutions for the loans.

Incentive Stock Option Program. The Company believes it is essential for all executive officers to receive Incentive Stock Options ("ISOs") under the Incentive Plan, thereby aligning the long-term interests of executives with those of stockholders. The Company adopted the Incentive Plan in 1992, charging the Committee with responsibility for its administration. These ISOs generally vest over a four-year period and expire ten (10) years from the date of grant. If an executive officer's employment terminates prior to applicable vesting dates, the officer generally forfeits all ISOs that have not yet vested. The Committee believes that the grant of these ISOs to executive officers is highly desirable because it motivates these officers to continue their employment with the Company and creates strong incentives to maximize the growth and profitability of the Company.

As of August 31, 2000, executive officers held incentive stock options to purchase an aggregate of 381,300 shares of Common Stock granted under the direction of the Committee pursuant to the Incentive Plan since its inception in 1992. Of those options, 103,159 are currently exercisable.

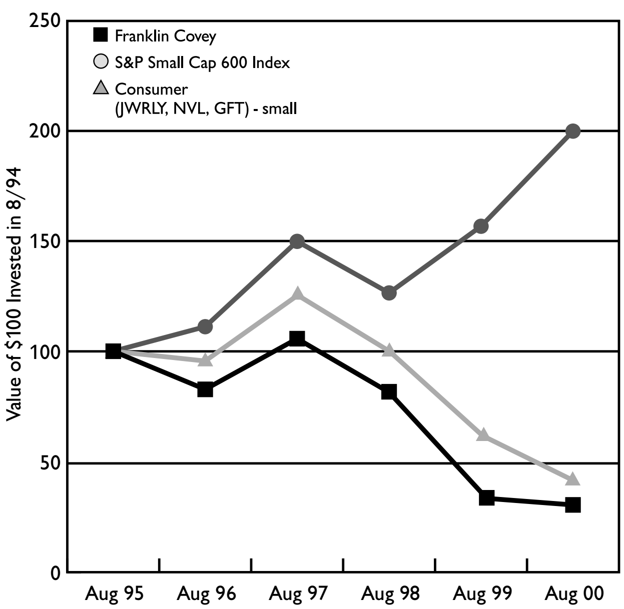
Other Compensation Plans. The Company has a number of other broad-based employee benefit plans in which executive officers participate on the same terms as other employees meeting the eligibility requirements, subject to any legal limitations on amounts that may be contributed to or benefits payable under the plans. These include (I) the Company's cafeteria plan administered pursuant to Section 125 of the Internal Revenue Code of 1986, as amended (the "Code"); (ii) the Company's 401(k) Plan, pursuant to which the company makes matching contributions; and (iii) the Company's Employee Stock Purchase Plan implemented and administered pursuant to Section 423 of the Code.

Respectfully submitted,

E. Kay Stepp
Robert H. Daines
Dennis G. Heiner
Brian A. Krisak
Steven C. Wheelwright

Performance Graph

The following graph shows a comparison of cumulative total shareholder return, calculated on a dividend reinvested basis, for the five fiscal years ended August 31, 2000, for the Common Stock, the S&P 600 SmallCap Index in which the Company is included and the S&P Miscellaneous Industry Index, the index to which the Company believes it would be assigned if it were included in the S&P 500. The Company has been advised that the S&P Miscellaneous Industry Index includes ten corporations, many of which, like the Company, are of a diversified nature.



PRINCIPAL HOLDERS OF VOTING SECURITIES

The following table sets forth information as of November 1, 2000, with respect to the beneficial ownership of shares of Common Stock and Series A Preferred Stock by each person known by the Company to be the beneficial owner of more than five percent of Common Stock or Series A Preferred Stock, by each director, by each executive officer named in the Summary Compensation Table and by all directors and officers as a group. Unless noted otherwise, each person named has sole voting and investment power with respect to the shares indicated. The percentages set forth below have been computed without taking into account treasury shares held by the Company and are based on 20,643,182 shares of Common Stock and 811,094 shares of the Series A Preferred Stock outstanding as of November 1, 2000. In cases where shareholders own both Common Stock and Series A Preferred Stock, the number of shares shown assumes the conversion of the Series A Preferred Stock into the Common Stock and the issued and outstanding Common Stock is increased by an equal amount for that shareholder. The shares of Series A Preferred Stock are shown on an "as converted basis" with approximately 7.14 shares of Common Stock issuable on conversion of each share of Series A Preferred Stock.

	Beneficial Ownership as of November 1, 2000	
	Number of Shares	Percentage of Class
Common Stock and Common Stock Equivalents:		
Knowledge Capital Investment Company (1)(2). 2200 Ross Avenue, Suite 42-W Dallas, Texas 75201	6,506,073	24.9%
Stephen R. Covey(3) c/o Franklin Covey Co. 2200 West Parkway Boulevard Salt Lake City, Utah 84119-2331	1,927,384	9.3
Dimensional Fund Advisors, Inc. 1299 Ocean Avenue Santa Monica, California 90401	1,524,700	7.4
Dennis R. Webb(3)(4) c/o Franklin Covey Co. 2200 West Parkway Boulevard Salt Lake City, Utah 84119-2331	1,275,712	6.2
Yacktman Asset Management (1) 303 West Madison Chicago, Illinois 60606	1,209,102	5.8

	Number of Shares	Percentage of Class
Hyrum W. Smith(3)(4)	568,859	2.8
Stephen M. R. Covey	365,436	1.8
Val John Christensen(3)	254,401	1.2
John R. Harding(3)	206,942	1.0
Joel C. Peterson	144,487	*
Don J. Johnson(3)	54,495	*
Steven C. Wheelwright	30,000	*
Robert H. Daines(6)	20,507	*
E. J. Jake Garn	4,000	*
Kay E. Stepp	3,000	*
Dennis G. Heiner	–	*
Robert A Whitman(2)	–	*
Brian A. Krisak(2)	–	*
Donald J. McNamara(2)	–	*
All directors and executive officers As a group (22 persons)(1)(2)(4)(5)	9,074,613	34.4%

* Less than 1%.

(1) The Series A Preferred Stock is convertible into Common Stock at a rate of approximately 7.14 shares of Common Stock for each share of Series A Preferred Stock. The number of shares shown for Knowledge Capital Investment Company and Yacktman Asset Management include 768,750 and 10,102 shares of the Series A Preferred Stock, respectively, shown on an as converted basis as 5,491,071 and 72,157 shares of Common Stock respectively. The holdings of Knowledge Capital Investment Company and Yacktman Asset Management represent 94.8 percent and 1.2 percent of the issued and outstanding Series A Preferred Stock, respectively.

(2) Messrs. Krisak and McNamara, each of whom is a director of the Company, are principals of the private investment firm that sponsors Knowledge Capital. Mr. Whitman, an executive officer of the Company, is a shareholder of Knowledge Capital. Mssrs. Krisak, McNamara and Whitman therefore may be deemed the beneficial owner of the Common Stock and the Series A Preferred Stock and the shares of Common Stock into which the Series A Preferred Stock may be converted. Each of Messrs. Whitman, Krisak and McNamara disclaim beneficial ownership of the Common Stock and the Series A Preferred Stock and of the Common Stock into which the Series A Preferred Stock may be converted.

(3) The share amounts indicated for Hyrum W. Smith are owned of record by Hyrum W. Smith as trustee of The Hyrum W. Smith Trust with respect to 329,700 shares; those indicated for Dennis R. Webb, by Dennis R. Webb as trustee of The Lighthouse Foundation with respect to 82,500 shares; and those indicated for Stephen R. Covey by Stephen R. Covey as Trustee of The Gathering For Zion Foundation with respect to 505,000 shares; and for SRSMC, LLC with respect to 40,000 shares; and for SANSTEP Properties, LLC with respect to 1,382,384 shares. Messrs. Smith and Webb are the respective trustees of those trusts and foundations, having sole power to vote and dispose of all shares held by the respective trusts and foundations, and may be deemed to have beneficial ownership of such shares. Mr. Covey, as a trustee of the Gathering for Zion Foundation and as co-manager of SRSMC, LLC and SANSTEP, LLC, has shared voting and dispositive control over the shares held by those entities and may be deemed to have beneficial ownership of such shares.

(4) Some of the share amounts indicated as beneficially owned are subject to options granted to other directors, officers and key employees of the Company by the following persons in the following amounts: Hyrum W. Smith, 49,350 shares, and Dennis R. Webb, 19,500 shares.

(5) The share amounts indicated include shares subject to options currently exercisable held by the following persons in the following amounts: Val John Christensen, 27,825 shares; Don J. Johnson, 5,000 shares; John R. Harding, 51,834 shares; and all executive officers and directors as a group, 112,159 shares.

(6) The share amounts indicated for Robert H. Daines include 5,000 shares owned by Tahoe Investments, L.L.C., a Utah limited liability company, of which Mr. Daines is a member.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires the Company's directors and executive officers, and persons who own more than 10 percent of the Common Stock, to file with the Securities and Exchange Commission (the "Commission") initial reports of ownership and reports of changes in ownership of the Common Stock and other securities which are derivative of the Common Stock. Executive officers, directors and holders of more than 10 percent of the Common Stock are required by Commission regulations to furnish the Company with copies of all such reports they file. Based upon a review of the copies of such forms received by the Company and information furnished by the persons named below, the Company believes that all reports were filed on a timely basis. Except for: A Form 4 for E. J. ("Jake") Garn, a director, reported the purchase of 4,000 shares was due on June 10, 2000, but not filed until June 20, 2000; A Form 3 for John R. Harding, an executive officer, was timely filed on October 21, 1999, but did not list all options held at the time he became an insider. An amendment to the Form 3 to report all securities held was filed on December 14, 1999; A Form 3 for Darl McBride, an executive officer, was due on July 10, 2000, but was not filed until July 13, 2000; A Form 5 for Mikel Rigg-Mcguire to report 25,000 options granted to her on February 17, 1999 and 10,000 options granted to her on December 11, 1998 which should have been reported no later than November 14, 1999, but were not reported until a Form 4 was filed on June 12, 2000; A Form 3 for Marva Sadler, an executive officer, was due on March 3, 2000, but was not filed until June 13, 2000; A Form 3 for Douglas Smith was timely filed on October 21, 1999, but did not list all shares held at the time he became an insider until an amendment to the Form 3 to report all securities was filed on November 17, 1999; A Form 4 for D. Gordon Wilson that reported the sale of 357 shares was due on December 10, 1999, but was not filed until February 18, 2000.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In connection with the merger between the Company and Covey Leadership Center, Stephen R. Covey, who is vice-chairman of the Board of Directors, entered into a Speaker Services Agreement with the Company pursuant to which Dr. Covey receives 20 percent of the proceeds from personal speaking engagements, which resulted in a payment of $3.3 million to Dr. Covey for the fiscal year ending August 31, 2000. Also in connection with this transaction, the Company entered in a 12-year lease agreement expiring in 2009 on two office buildings located in Provo, Utah where the operations of Covey formerly conducted by Covey continued to be located. The buildings are leased from entities in which Stephen R. Covey and Stephen M. R. Covey, executive officers and/or directors of the Company have a 35 percent and 11 percent interest, respectively. Lease rentals paid in fiscal 2000 were $2,062,428. The Company believes the terms of the leases, including the lease rentals, are at least as favorable as could be obtained from unrelated third parties.

Robert A. Whitman, the Company's Chairman and Chief Executive Officer, and Messrs. Donald J. McNamara and Brian A. Krisak, directors of the Company, are principals of the Hampstead Group, L.L.C., a Texas limited liability company, the private investment firm that sponsors Knowledge Capital Investment Company, the holder of 95 percent of the Company's outstanding Series A Preferred Stock, and of Hampstead Interests, LP, a Texas limited partnership. On June 2, 1999, the Company and Hampstead Interests, LP entered into a Monitoring Agreement which provides for payment of a monitoring fee of $100,000 per quarter to Hampstead Interests, LP for assisting the Company in strategic planning, including acquisitions, divestitures, new development and financing matters. The agreement continues so long as Knowledge Capital Investment Group owns more than 50 percent of the 750,000 shares of Series A Preferred Stock (or Common Stock equivalents) originally purchased. The Company has paid $400,000 to Hampstead Interests, LP since the beginning of the fiscal year ended August 31, 2000, pursuant to the Monitoring Agreement.

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

During fiscal 2000, the Company actively sought to reacquire outstanding options to purchase the Company's common stock (Note 12). Included in the total number of option shares reacquired, the Company purchased 150,000 option shares from a Vice-Chairman of the Board of Directors for $0.4 million. In addition, 358,000 option shares were purchased from two officers and one former officer of the Company for a total of $0.8 million. These options were reacquired using the same valuation methodology as other stock options purchased by the Company.

Premier Agendas ("Premier"), a subsidiary of the Company, had trade accounts payable to various companies which are partially owned by certain former owners of Premier totaling $2.1 million and $3.3 million at August 31, 2000 and 1999, respectively. In addition, Premier had notes payable to key employees and former key employees totaling $1.4 million and $1.5 million as of August 31, 2000 and 1999, respectively (Note 6). The notes payable were used for working capital, are due upon demand, and have interest rates which approximate prevailing market rates.

During fiscal years 2000 and 1998, the Company purchased 9,000 shares and 500,000 shares of its common stock for $0.1 million and $12.0 million in cash, respectively, from a Vice-Chairman of the Board of Directors. All shares were purchased at the existing fair market value on the dates of the transactions.

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

During the fiscal year ended August 31, 1999, the Company purchased 130,000 shares of its common stock for $2.3 million in cash, from an officer of the Company. The shares were purchased at the existing fair market value on the date of the transaction.

During the fiscal years ended August 31, 1999 and 1998, the Company purchased 92,000 and 100,000 shares of its common stock for $1.2 million and $2.5 million in cash, respectively, from a former officer and director of the Company. The shares were purchased at the existing fair market value on the dates of the transactions.

The Company purchased 194,000 shares of its common stock from a director of the Company for $3.7 million in cash during the fiscal year ended August 31, 1998. Also during fiscal 1998, the Company purchased 57,094 shares of its common stock from a former officer of the Company for $1.1 million. The shares were purchased at the existing fair market value on the dates of the transactions.

During fiscal 1998, the Company sold one of its consulting units to a group of former employees for $1.6 million. The amount is payable to the Company in six annual installments from September 1998 through 2003. The Company also granted certain employees the option to purchase another consulting unit of the Company for $1.2 million payable to the Company in equal annual installments over a ten-year period commencing January 2001. Such option becomes exerciseable upon the achievement of certain financial thresholds. As of August 31, 2000, the consulting unit had not yet reached planned financial thresholds and the Company does not expect that the option will be exercised.

Each transaction described above was entered into pursuant to arm's length negotiations with the party involved and were approved by disinterested majorities of the board of directors or the Compensation Committee of the Board.

PROPOSAL TO ADOPT AN EXECUTIVE PERFORMANCE AWARD FOR THE CHIEF EXECUTIVE OFFICER OF THE COMPANY

General

In an effort to develop a compensation agreement that would create a strong link in both pay for performance and shareholder value creation, the Board and Mr. Whitman have directly linked Mr. Whitman's annual performance award and long-term compensation to measures that create value and increase the price of the Company's Common Stock. The performance award's unusual structure differs from normal executive compensation programs in that the annual performance pay is tied to very aggressive growth goals and the long-term compensation is awarded only after most shareholders have benefited from a substantial increase in share price. For example, for fiscal year 2001, Mr. Whitman would receive no performance pay until an approximate 36% increase in EBITDA is achieved and would not receive a full reward unless an 84% increase in EBITDA is achieved. Though subsequent years' performance requirements may not necessarily be that aggressive, the hurdle tied to value creation is expected to be high. The Company's outside compensation consultants advised the Board that long-term compensation is typically bench-marked by company size and is usually granted at current market price. However,to emphasize pay for performance, the options granted to Mr. Whitman have an unusually conservative vesting schedule and grant price, consistent with Mr. Whitman's desire that value be created for existing shareholders before he receives long-term compensation rewards. The award provides for no vesting for seven years (and only then if currently employed) of any of the options unless the market price of the Company's stock price reaches certain levels which would increase shareholders value by approximately 300% to 700% over that time period. The grant price of $14.00 is also well above the current market price. The Board and Mr. Whitman have designed this compensation package with the intent that existing shareholders would benefit prior to Mr. Whitman receiving meaningful compensation.

On July 14, 2000, which became effective September 1, 2000, the Board of Directors and the Compensation Committee of the Board approved the terms of an employment agreement (the "Employment Agreement" or "Agreement") containing a performance award for Robert A. Whitman, the Chairman of the Board, President and Chief Executive Officer of the Company, subject to approval by the Company's shareholders in accordance with the provisions of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). Section 162(m) generally authorizes the deduction of compensation in excess of $1,000,000 per taxable year payable to a chief executive officer (and certain other officers) only where such compensation is at least partially based on performance, satisfies other requirements, and is approved by shareholder vote.

If the performance award is approved by the affirmative vote of the holders of at least a majority of the shares of Common Stock present and entitled to vote at the meeting and certain other requirements set forth in Section 162(m) of the Code are satisfied, the performance awards paid to Mr. Whitman pursuant to the Employment Agreement will qualify for deduction under Section 162(m) of the Code. A description of the performance award for Mr. Whitman is set forth below.

Annual Incentive Compensation

Under the terms of his agreement, Mr. Whitman is entitled to annual incentive compensation ranging from 0 percent to 150 percent of his base salary. This base salary, retroactively paid to December 31, 1999, is initially fixed at $500,000 per year, but will be reviewed annually by the Compensation Committee and may be increased during the term of the agreement. The employment agreement has an initial term through August 31, 2007, and may be extended beyond this term by the mutual agreement of the Company and Mr. Whitman.

Mr. Whitman will be eligible to receive the incentive compensation only if he meets or exceeds performance standards established annually by the Compensation Committee. Fifty to seventy-five percent of the annual incentive compensation will be based on reaching or exceeding targets with respect to the Company's earnings before interest, taxes depreciation and amortization ("EBITDA") for each fiscal year. The remaining percentage of the annual incentive compensation will be based on meeting or exceeding target goals with respect to other aspects of the business of the Company identified by the Compensation Committee and may include such things as meeting target dates for development of specific projects, meeting sales goals for individual products or business areas, increasing revenues and/or market penetration associated with products or groups of products, successful development and introduction of new products, attracting and retaining key employees, implementing business strategies, identifying and negotiating business transactions, and other items that may be established by the Compensation Committee from time to time.

Option Grant

The employment agreement also provides for the grant to Mr. Whitman of an option to purchase 1,602,000 shares of the Company's common stock, with an exercise price of $14.00 per share. This option becomes exercisable on a graduated basis, depending on increases in the market price for the Company's common stock. If the closing sales price for the Company's common stock exceeds $20.00 for 90 consecutive trading days, the option becomes exercisable with respect to 801,000 shares of stock. The option becomes exercisable for additional shares of stock for each subsequent $5.00 increase in the market price of the stock up to $50.00 at which point the option is exercisable for the entire 1,602,000 shares. If it has not otherwise become exercisable and if Mr. Whitman is still employed by the Company, the option will become fully exercisable on August 31, 2007. The option also becomes exercisable under certain conditions in the event the Company elects to terminate the employment agreement or there is a change of control of the Company, all as defined under the terms of the employment agreement. To the extent unexercised, the option will expire on August 31, 2010.

In the event that Mr. Whitman elects to exercise the option to acquire shares of common stock, the Company has agreed to loan the exercise price, plus the aggregate amount of any federal, state, or local income tax payable as a result of such exercise, to Mr. Whitman. This loan will bear interest at a rate substantially similar to the interest on loans by the Company to key employees under its Management Sock Purchase Loan Program. The principal amount of the loan (or a pro rata portion thereof) will be payable at the time that Mr. Whitman's sells or otherwise disposes of shares of common stock purchased with the loan proceeds. If not previously paid, the loan will be payable in full five years after the date of the advance by the Company.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE SHAREHOLDERS VOTE IN FAVOR OF THE PROPOSAL TO APPROVE THE PERFORMANCE AWARDS FOR THE CHIEF EXECUTIVE OFFICER OF THE COMPANY.

PROPOSAL TO RATIFY THE AMENDMENT OF THE EMPLOYEE STOCK PURCHASE PLAN

General

The Franklin Covey Co. Amended and Restated 2000 Employee Stock Purchase Plan, as amended, (the "Purchase Plan") was adopted by the Board of Directors (the "Board") in March 1992 and approved by the Company's shareholders in April 1992. The Purchase Plan was amended by the Board on June 29, 1992, in August, 1992 and on March 11, 1996. On May 11, 2000, the Board amended the Purchase Plan to extend the term of the Purchase Plan and increased the number of shares of the Company's Common Stock, subject to the Purchase Plan by 1,000,000. This most recent amendment (the "Amendment") is being submitted to the shareholders for their approval. The following description of the Purchase Plan contains, among other information, summaries of certain provisions of the Purchase Plan, a copy of which will be provided to any employee eligible to participate in the Purchase Plan upon request. The information set forth in this document with respect to the Purchase Plan is qualified in its entirety by reference to the complete text of the Purchase Plan.

The purpose of the Purchase Plan is to provide a method whereby employees of the Company and its subsidiary corporations will have an opportunity to acquire a proprietary interest in the Company through the purchase of shares of Common Stock. The Purchase Plan has been structured to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986, as amended (the "Code").

The Purchase Plan is not a qualified retirement plan under Section 401 of the Code, nor is it subject to any provision of the Employee Retirement Income Security Act of 1974, as amended.

Administration of the Incentive Plan

The Purchase Plan is administered by a committee appointed by the Board of Directors (the "Board") consisting of three or more disinterested members of the Board (the "Committee"). Members of the Committee are ineligible to purchase stock under the Purchase Plan. The Board may, in its sole discretion, remove or add members to the Committee from time to time and fill any vacancy, however caused. Members of the Committee serve until the expiration or termination of the Purchase Plan unless they resign or are removed by the Board before the expiration or termination of the Purchase Plan.

The Committee has plenary authority in its discretion to interpret and construe any and all provisions of the Purchase Plan, to adopt rules and regulations for administering the Purchase Plan, to appoint custodians, accountants and other advisors, and to make all other determinations deemed necessary or advisable for administering the Purchase Plan. All determinations and decisions of the Committee are made by a majority of its members, whether by a vote in a meeting of the Committee or by the written consent of a majority of the Committee. The Committee's determination on the foregoing matters shall be conclusive.

Duration of the Purchase Plan

The Purchase Plan became effective as of March 30, 1992 and currently expires August 31, 2000. If the Amendment is approved, the Purchase Plan will remain in effect until August 31, 2004 unless terminated earlier by the Board in accordance with the terms of the Purchase Plan.

Shares Subject to the Purchase Plan

Upon approval of the Amendment, the maximum number of shares of Common Stock that may be issued under the plan is 1,300,000 shares.

If the total number of shares for which options are exercised on the termination date of any Offering exceeds the maximum number of shares under the Purchase Plan, the Company shall make a pro-rata allocation of the shares available in as nearly a uniform manner as shall be practicable and the balance of payroll deductions credited to the account of each participant under the Purchase Plan shall be returned to him/her as promptly as possible together with interest accrued thereon. (See — "Withdrawal from Purchase Plan" for determination of the applicable rate of interest). For purposes of calculating interest, the payroll deductions shall be allocated so that the earliest payroll deductions shall apply to purchase of the stock and the most recent payroll deductions shall be deemed to be the deductions that are to be returned.

In the event the outstanding shares of Common Stock of the Company increase, decrease, change into, or are exchanged for a different number or kind of security of the Company through reorganization, merger, recapitalization, reclassification, stock split, reverse stock split or similar transaction ("Changes in Capital"), the number and/or kind of shares which may be offered in the Offerings shall be proportionately adjusted. No adjustments will be made for stock dividends. Any distribution of shares to shareholders aggregating less than twenty percent (20 percent) of the outstanding shares of Common Stock shall be deemed to be a stock dividend. Any distribution of shares to shareholders aggregating twenty percent (20 percent) or more shall be deemed to be a stock split.

Eligibility

Any employee who completes 90 days employment is eligible to participate in any Offerings under the Purchase Plan which commences on or after such 90 day period and for so long thereafter as such employee remains continuously employed by the Company. For purposes of participation in the Purchase Plan, a person on leave of absence shall be deemed to be an employee for the first 90 days of such leave of absence and such employee's employment shall be deemed to have terminated at the close of business on the 90th day of such leave of absence.

Notwithstanding the above, no employee shall be granted an option under the Purchase Plan:

(a) if immediately after the grant, such employee would own stock, and/or hold outstanding options to purchase stock, possessing 5 percent or more of the total combined voting power or value of all classes of stock of the Company as determined under the rules of Section 424 of the Code; or

(b) which permits his/her rights to purchase stock under all employee stock purchase plans of the Company to accrue at a rate which exceeds $20,000 in fair market value of the stock (determined at the time such option is granted) for each calendar year in which such option is outstanding.

Election to Participate in the Plan

The Purchase Plan provides for annual offerings of the Company's Common Stock (the "Annual Offering(s)") commencing on September 1 of each year covered under the Purchase Plan and ending on August 31 of the following year. Each Annual Offering, at the discretion of the Committee exercised prior to the commencement thereof, may be divided into four three-month offerings commencing, respectively on September 1, December 1, March 1 and June 1 and terminating on November 30, February 28/29, May 31 and August 31 respectively (the" Quarterly Offering(s)") (Annual Offerings and Quarterly Offerings are sometimes collectively referred to as the "Offering(s)"). "Commencement Date" means the commencement date for any Annual or Quarterly Offering as described above and "Termination Date" means the termination date for any Annual or Quarterly Offering as described above.

Eligible employees have the opportunity to elect to participate in the Purchase Plan prior to every Offering. An eligible employee may become a participant in the Purchase Plan by completing an authorization for payroll deduction under the Purchase Plan on the form provided by the Company and filing it with the office of the General Counsel of the Company on or before the date set by the Committee (the "Election Date"). The Election Date shall always be prior to the Commencement Date for each Offering.

Granting of Options

On the Commencement Date of each Offering, each employee who has elected to participate in the Offering (the "Participant") is deemed to have been granted an option to purchase a maximum number of shares of the Company's Common Stock (the "Option"). The maximum number of shares that can be purchased under an Option shall be equal to an amount (rounded down to a whole number) determined as follows:

> The percentage rate selected by the Participant on his/her authorization for payroll deduction form shall be multiplied by the Participant's base pay during the period of the Offering and then the product of such computation shall be divided by 85 percent of the market value of the Company's Common Stock on the applicable Offering Commencement Date.

The market value of the stock shall be the average between the highest and lowest sale prices per share of the Company's Common Stock on the New York Stock Exchange ("NYSE") on the Offering Commencement Date or the nearest prior business day on which trading occurred on the NYSE. A Participant's base pay during the period of an Offering shall be determined by multiplying, in the case of an Annual Offering, the Participant's normal weekly rate of pay (as in effect on the last day prior to the Commencement Date) by 52 or the hourly rate by 2,080, or in the case of a Quarterly Offering, by 13 or 520 as the case may be. "Base Pay" shall include base salary, adjusted compensation, incentive compensation, overtime, bonuses and/or other regular payments, unless otherwise determined by the Committee. Base Pay does not include any payments for shift differential, reimbursement for expenses, deferred compensation in any form, or other non-regular payments unless otherwise determined by the Committee. In the case of a part-time hourly employee, the employee's Base Pay during the period of an Offering shall be determined by multiplying the employee's hourly rate by the number of regularly scheduled hours of work for the employee during such Offering.

The exercise price of any Option granted during any given Offering shall be the average between the highest and lowest sale prices per share of the Company's Common Stock on the NYSE on the Offering Termination Date or the nearest prior business day on which trading occurred on the NYSE. If the Company's Common Stock is not admitted to trading on any of the aforesaid dates for which closing prices of the Common Stock are to be determined, then reference shall be made to the fair market value of the Common Stock on that date, as determined on such basis as shall be established or specified for that purpose by the Committee.

In the event of a Change in Capital (as defined above), appropriate and proportionate adjustments may be made by the Committee in the number and/or kind of shares which are subject to purchase under outstanding Options and in the exercise price or prices applicable to such outstanding Options.

Upon the dissolution or liquidation of the Company, or upon reorganization, merger or consolidation of the Company with one or more corporations as a result of which the Company is not the surviving corporation, or upon a sale of substantially all of the property or stock of the Company to another corporation (the "Reorganization Transactions"), the holder of each Option then outstanding under the Purchase Plan will thereafter be entitled to receive at the next Offering Termination Date upon the exercise of such Option for each share as to which such Option shall be exercised as nearly as reasonably may be determined, the cash, securities and/or property which a holder of one share of the Common Stock was entitled to receive upon and at the time of such Reorganization Transaction. The Board shall take such steps in connection with any Reorganization Transaction, as the Board shall deem necessary, to assure that holders of Options under the Purchase Plan shall be entitled to receive, as nearly as reasonably may be determined, the cash, securities and/ or property as described above.

Payment

Payment for shares issued under the Purchase Plan shall be made solely by payroll deductions except in the case of a leave of absence and then only in accordance with the terms of the Purchase Plan. All payroll deductions made for a Participant shall be credited to the Participant's account under the Purchase Plan.

At the time a Participant files an authorization for payroll deduction, the Participant may elect to have a payroll deduction of any whole percentage amount up to 15 percent of his/her Base Pay in effect at the Commencement Date of the Offering made from his/her pay on each payday during an Offering. The rate of payroll deduction under the Purchase Plan can in no event exceed 15 percent. Payroll deductions shall commence on the Commencement Date for the Offering for which an authorization for payroll deduction has been received. Payroll deductions for a Participant shall automatically continue for all subsequent Offerings unless the Participant withdraws from an Offering or delivers written notice of his/her election not to participate in the subsequent Offering to the Company. Such notice must be delivered to the Office of General Counsel of the Company prior to the Election Date for the subsequent Offering. Payroll deductions will be terminated for a Participant during an Offering if the Participant elects to withdraw from the Offering in accordance with the terms of the Purchase Plan. See "— Withdrawal from Purchase Plan." A Participant's decision not to participate in any given Offering will not prevent him/her from participating in any subsequent Offering under the Purchase Plan. Once a Participant has withdrawn from an Offering or elected not to participate in an Offering, he/she must file a new authorization for payroll deduction to participate in any subsequent Offering. A Participant may change the rate of payroll deduction for any subsequent Offering by filing a new authorization for payroll deduction prior to the Election Date for the subsequent Offering. A Participant may discontinue his/her participation in an Offering as provided below but may not make any other changes during an Offering, including without limitation, altering the amount of his/her payroll deductions during any Offering.

If a Participant goes on a leave of absence, such Participant shall have the right to elect: (a) to withdraw the balance in his/her account; (b) to discontinue contributions to the Plan but remain a participant in the Purchase Plan; or (c) to remain a participant in the Plan during such leave of absence, authorizing deductions to be made from payments by the Company to such Participant during his/her leave of absence and undertaking to make cash payments to the Purchase Plan at the end of each payroll period to the extent that amounts payable by the Company to such Participant are insufficient to meet his/her authorized payroll deductions. Notwithstanding the above, a Participant's interest in the Purchase Plan and any Offering shall be terminated if such leave of absence extends beyond certain time periods. See "— Termination of Employment."

All payroll deductions received or held by the Company under the Purchase Plan may be used by the Company for any corporate purpose and the Company shall not be obligated to segregate such payroll deductions.

Exercise of Options

Options granted to Participants for an Offering shall be deemed to have been exercised automatically on the Offering Termination Date unless the Participant has withdrawn from the Offering. Options will automatically be deemed to be exercised for the purchase of the number of shares of Common Stock which the accumulated payroll deductions in the Participant's account will purchase at the applicable exercise price. Notwithstanding the above, the number of shares purchased shall in no event exceed the maximum number of shares for which the Option was granted on the Offering Commencement Date. Any excess funds in a Participant's account after the purchase of the maximum number of shares will be promptly returned to the Participant without interest.

The purchase of shares of Common Stock upon the exercise of Options under the Purchase Plan shall be conducted solely through Merrill, Lynch, Pierce, Fenner

& Smith ("Merrill Lynch"). The relationship between a Participant and Merrill Lynch shall be governed by an agreement to be entered into by the Participant with Merrill Lynch at the time the Participant elects to participate in the Purchase Plan. The Common Stock purchased under the Purchase Plan shall be registered in the name of a nominee named by Merrill Lynch and credited to the Participant's account at Merrill Lynch. Stock certificates representing the shares of Common Stock purchased under the Purchase Plan shall be delivered to Merrill Lynch as soon as practicable after the Offering Termination Date.

Withdrawal from Purchase Plan

A Participant may withdraw from an Offering at anytime prior to the Offering Termination Date by giving written notice of such election to the General Counsel of the Company (the "Withdrawing Employee"). All of the Withdrawing Employee's payroll deductions credited to his/her account will be paid to the Withdrawing Employee together with simple interest accrued thereon from the date of withholding to the date of return promptly after receipt of his/her notice of withdrawal . Upon receipt of a Withdrawing Employee's election to withdraw, the Company shall make no further payroll deductions from the Withdrawing Employee's pay during the Offering. Withdrawal from any Offering will not have any effect upon the Withdrawing Employee's eligibility to participate in any subsequent Offering under the Purchase Plan or in any similar plan which may hereafter be adopted by the Company.

Termination of Employment

Upon the termination of a Participant's employment with the Company for any reason including retirement (but excluding death while in the employ of the Company or a continuation of a leave of absence for a period beyond ninety (90) days), the Participant's participation in the Purchase Plan and in any current Offering shall be terminated. All the payroll deductions credited to the terminated Participant's account shall be returned to him/her together with interest accrued thereon from the date of withholding to the date of return.

Upon the termination of a Participant's employment because of death, the Participant's beneficiary (as determined under the Purchase Plan) shall have the right to elect either to: (i) withdraw all of the payroll deductions credited to such Participant's account under the Purchase Plan together with interest accrued thereon from the date of withholding to the date of return; or (ii) to exercise such Participant's Option on the Offering Termination Date following the Participant's death for the purchase of the number of full shares of stock which the accumulated payroll deduction in such Participant's account at the date of the Participant's death will purchase at the applicable exercise price on the Offering Termination Date. In the event the beneficiary elects the latter option, any excess in the account will be returned to said beneficiary without interest. The beneficiary must make such election by written notice to the General Counsel of the Company prior to the earlier of: (i) the Offering Termination Date; or (ii) the expiration of a period of sixty (60) days commencing with the date of the death of the Participant. If the beneficiary fails to make such election within the prescribed time period, then the beneficiary shall be deemed to have selected to exercise the Participant's Option as described above.

If a Participant who is on leave of absence does not return to regular full time or part time employment with the Company at the earlier of (i) the termination of such leave of absence or (ii) three months from the 90th day of such leave of absence, then such Participant's participation in the Purchase Plan and any Offering shall terminate on whichever of such dates occur first. All payroll deductions credited to such Participant's account shall be returned to him/her together with interest accrued thereon from the date of withholding to the date of return. In addition, a Participant who has been on a leave of absence for more than 90 days shall not be entitled to participate in any Offering commencing after the 90th day of such leave of absence.

Interest that is accrued on amounts to be returned to Participants as set forth above shall accrue at the regular passbook savings account rates per annum in effect at Zions First National Bank, N.A., Salt Lake City Utah. If such rate is not published or otherwise available for such purpose, then the applicable rate shall be the regular passbook savings account rates per annum in effect during such period at another major commercial bank in Salt Lake City, selected by the Committee.

Transferability

Neither payroll deductions credited to a Participant's account nor any rights with regard to the exercise of an Option or to receive stock under the Purchase Plan may be assigned, transferred, pledged, or otherwise disposed of in any way by the Participant other than by will or the laws of descent and distribution. During a Participant's lifetime, Options may only be exercised by the Participant who holds such Options. Any such attempted assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act, in its sole discretion, as an election to withdraw from the Purchase Plan.

Restrictions on Issuance and Transfer of Common Stock Issuable Under the Purchase Plan

Conditions To Issuance of Common Stock

The Company shall not be required to issue any Common Stock under the Purchase Plan unless and until the Committee reasonably determines that such issuance will be in compliance with the Securities Act of 1933, as amended and other governing securities laws. The Committee may impose and enforce any condition required by applicable securities law in connection with the issuance or transfer of any Common Stock issued or issuable under the Purchase Plan.

Prohibitions on Trading While In Possession of Material Non-Public Information

Under governing securities laws, no shares of Common Stock acquired under the Purchase Plan Plan may be offered or sold while the holder thereof is in possession of material nonpublic information. Violation of such prohibition may result in civil or criminal sanctions.

Limitations on Transfer By Certain Insiders Subject to Section 16 of the Exchange Act

The securities laws of the United States subject officers, directors and certain beneficial owners of 10 percent or more of the Common Stock (collectively, "Insiders") to the reporting and liability provisions of Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Section 16(b) Liability Provisions. Section 16(b) of the Exchange Act generally provides that any profit realized by an Insider from any purchase and sale, or any sale and purchase, of any equity security of the Company within six months is recoverable by the Company. Transactions by Insiders of the Company in Common Stock are subject to such short-swing liability provisions under Section 16(b), unless an exemption is available thereunder. Rule 16b-3 provides that a transaction pursuant to an employee stock purchase plan that satisfies certain requirements of Section 423 of the Code is exempt from the short-swing restrictions of Section 16(b). The Purchase Plan satisfies such requirements of Section 423 of the Code and, accordingly, the issuance of Common Stock Pursuant to Purchase Plan will be exempt (i.e., not counted as a purchase transaction) for purposes of the short-swing liability provisions of Section 16(b).

Although receipt by an Insider of Common Stock under the Purchase Plan may be exempt from short-swing liability, as discussed above, the sale of such Common Stock by an Insider of the Company will generally not be exempt. Therefore, unless one of the limited number of exceptions applies, the sale to any party other than the Company of Common Stock acquired under the Purchase Plan may be matchable against any non-exempt purchase transaction occurring within six months before or after such sale. Insiders of the Company are advised to take appropriate measures to assure compliance with the provisions of Section 16.

Section 16(a) Reporting Requirements and Section 16(c) Derivative Trading Restrictions. The Rules promulgated under the Exchange Act also impose various reporting requirements pursuant to Section 16(a) for Insiders of the Company with respect to transactions under the Purchase Plan. Violations of such requirements could result in penalties, fines and disclosure of such violations in the Company's Proxy Statement and Annual Report on Form 10-K. Section 16(c) of the Exchange Act continues to prohibit generally sales of an equity security by an Insider if he does not own the security or, if he owns the security, he does not deliver it within 20 days after sale.

The preceding summary of certain provisions of the securities laws of the United States is based upon the existing rules and regulations, which are subject to further change and interpretation, and does not purport to be a complete discussion of such securities laws. Participants who are Insiders of the Company are encouraged to consult with legal counsel with respect to the securities laws, rules and regulations applicable to any contemplated transaction under the Purchase Plan.

Restrictions on Transfer of Shares Held By Affiliates

Even if a Registration Statement on Form S-8 is in effect with respect to shares of Common Stock issued under the Purchase Plan, shares of Common Stock issued to "affiliates" of the Company (a term which includes Insiders and other persons who are deemed to control the Company) pursuant to the Purchase Plan may not be resold unless the re-sale transaction is registered under the Securities Act or such shares are re-sold pursuant to an applicable exemption, including the exemption provided by Rule 144 under the Securities Act ("Rule 144"). Pursuant to Rule 144, an affiliate of the Company is entitled to sell, within any three-month period, a number of Common Shares that does not exceed the greater of one percent (1%) of the outstanding shares of such class or the average weekly trading volume of such shares during the four calendar weeks preceding such sale. Although Rule 144 imposes certain manner of sale and other restrictions, affiliates of the Company are not subject to the one-year holding period under the rule with respect to shares of Common Stock acquired in connection with the Purchase Plan so long as a Registration Statement on Form S-8 or other registration statement was in effect for such shares at the time the shares were acquired by the affiliate from the Company.

Transferability of Shares Held by Non-Insiders and Non-Affiliates

Subject to the limitations set forth in the preceding paragraphs, limitations imposed by applicable state securities laws, and other limitations which may apply to a particular Participant, shares of Common Stock issued to Participants that are not Insiders or affiliates of the Company pursuant to the Purchase Plan are "free trading" shares if a Registration Statement on Form S-8 or other registration statement is in effect for such shares at the time such shares are acquired. The Company is under no obligation to maintain the effectiveness of the Registration Statement on Form S-8 of which this Disclosure Document is a part, and accordingly, Participants should verify that such Registration Statement is effective prior to electing to participate in the Purchase Plan.

Amendments to the Purchase Plan

The Board may, at any time and for any reason, amend or terminate the Purchase Plan. The Board, however, may not, without shareholder approval, amend the Purchase Plan to (i) increase the maximum number of shares which may be issued under any Offering (except in the case of Change in Capital); or (ii) amend the requirements as to the class of employees eligible to purchase stock under the Purchase Plan or permit the members of the Committee to purchase stock under the Purchase Plan. No termination, modification, or amendment of the Purchase Plan may, without the consent of an employee then having an Option to purchase stock, adversely affect the rights of such employee under such Option.

General Provisions

An employee shall have no interest in any shares of Common Stock covered by an Option under the Purchase Plan until such Option has been exercised. Neither the Purchase Plan nor any grant of Options thereunder shall be deemed to give any individual the right to remain employed by the Company, nor shall the Purchase Plan be deemed to interfere in any way with the Company's right to terminate, or otherwise modify, an employee's employment at any time. Employees shall not have any rights or interest under the Purchase Plan in any Option or shares of the Company's Common Stock prior to the grant of an Option to such employee.

A Participant may designate a beneficiary under the Purchase Plan by filing a written designation of a beneficiary who is to receive any stock and/or cash upon the death of such Participant. Such designation may be changed by the Participant at any time by written notice to the General Counsel of the Company. Upon the death of a Participant and upon receipt by the Company of proof of identity of the beneficiary, the Company shall deliver any stock and/or cash entitled to be received by the deceased Participant to a beneficiary validly designated by the Participant under the Purchase Plan. In the event of the death of a Participant and the absence of a beneficiary validly designated under the Purchase Plan who is living at the time of such Participant's death, the Company shall deliver such stock and/or cash to the executor or administrator of the estate of the Participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company , in its discretion, may deliver such stock and/or cash to the spouse or to any one or more dependents of the deceased Participant as the Company may designate. Notwithstanding the above, no beneficiary shall , prior to the death of the Participant by whom he has been designated, acquire any interest in the stock or cash credited to such Participant under the Plan.

Federal Income Tax Consequences

The following tax discussion is a brief summary of current federal income tax law applicable to the Purchase Plan. The discussion is intended solely for general information, and the Company does not make specific representations to any Participant or recipient of this information. A taxpayer's particular situation may be such that some variation of the basic rules is applicable to him or her. In addition, the federal income tax laws and regulations have been revised frequently and may be changed again at any time in the future, and, in some circumstances, with retroactive effect. Foreign, state and local tax treatment may vary from the federal income tax treatment of participating in the Purchase Plan, and is not discussed in this summary. Therefore, each Participant or recipient is urged to consult a tax adviser before exercising any purchasing rights or before disposing of any shares of Common Stock acquired under the Purchase Plan both with respect to federal income tax consequences as well as any foreign, state or local tax consequences.

The Purchase Plan is intended to qualify as an "employee stock purchase plan" within the meaning of Section 423 of the Code, and the income and employment tax consequences of participating in the Purchase Plan will depend upon whether the Purchase Plan so qualifies. The Purchase Plan will only meet the qualification requirements of Code Section 423 if the shareholders of the Company approve the Amendment within twelve months after the date of its adoption by the Company. The Company intends to submit the Amendment for shareholder approval at the annual meeting of the shareholders later this year. Assuming a quorum is present at that meeting and that a majority of the shares present are voted in favor of the Amendment, the federal income tax consequences of participating in the Purchase Plan will be as follows:

Federal Income Tax Consequences If Amendment Is Approved Within Twelve Months

1. *Election to Participate and Initial Grant of Options.* Participants who have filed with the Company the proper enrollment materials will be deemed to have been granted rights to purchase Common Stock exercisable on the given purchase date. A recipient of such purchase rights under the Purchase Plan incurs no income tax liability, and the Company obtains no deduction, upon the grant of the purchase rights.
2. *Payroll Deductions.* Payroll deductions taken from Participant's Base Pay and accumulated to pay the exercise price for shares purchased under the Purchase Plan, are made on an after-tax basis. Participants will not be entitled to deduct or exclude from income or their taxable social security wages any part of the payroll deductions withheld under the plan.
3. *Exercise of Purchase Rights.* An employee will not be subject to federal income tax upon the exercise of purchase rights under the Purchase Plan, nor will the Company be entitled to a tax deduction by reason of such exercise, provided that the employee is still employed by the Company on the purchase date (or terminated employment no longer than three months before the purchase date). The employee will have a cost basis in the shares of Common Stock acquired upon such exercise equal to the exercise price paid. While the issue is not fully settled, the Company believes that no social security taxes will apply to the discount on shares of Common Stock purchased under the Purchase Plan.
4. *Disposition of Shares Acquired Under Plan.* The tax consequences upon the disposition of shares acquired under the Purchase Plan will depend upon whether the employee has held the shares for the required holding period. The required holding period runs through the later of one year after the purchase date or two years after the date the purchase right was granted.

Except as noted below, if an employee disposes of shares of Common Stock acquired under the Purchase Plan before expiration of the above holding period, such as by gift or ordinary sale of such shares, the employee must recognize as ordinary compensation income in the year of disposition the difference between the shares' fair market value as of the date of exercise and the exercise price paid, and the Company will be entitled to a corresponding compensation expense deduction. This amount must be recognized as income by the employee even if the fair market value of the shares as of the date of exercise exceeds the fair market value of the shares as of the date of disposition or the amount of the sales proceeds received. The employee's tax basis in the shares, however, will be increased by the amount of ordinary income recognized, and the employee will recognize a capital gain or loss on the sale of the shares equal to the difference between (i) the sales price of the shares and (ii) the sum of the exercise price paid for the shares and the ordinary income recognized as a result of the disposition of the shares prior to the expiration of the holding period.

The rules requiring recognition of ordinary income upon disposition within the one- and two-year holding periods do not apply to disposition of shares upon death, as part of a tax-free exchange of shares in a corporate reorganization, or into joint tenancy with right of survivorship with one other person, or the mere pledge or hypothecation of shares.

The disposition of shares of Common Stock after expiration of the required holding period will result in the recognition of gain or loss in the amount of the difference between the amount realized on the sale of the shares and the exercise price for such shares. Any loss on such a sale will be a long-term capital loss. Any gain on such sale will be included in gross income for the taxable year of the disposition as ordinary compensation income up to the lesser of (i) the amount by which the price paid at the time of exercising the purchase rights was exceeded by the fair market value of the shares at the time the purchase right was granted or (ii) the amount by which the price paid under the Purchase Plan at the time of exercising the purchase right was exceeded by the fair market value of the shares at the time of such disposition. Additional gain, if any, will be taxed as long-term capital gain. Disposition of the shares of Common Stock on account of death (at any time) will trigger a like amount of ordinary income recognition.

Adverse Federal Income Tax Treatment If The Amendment Is Not Approved Within Twelve Months

The federal income tax consequences of the Purchase Plan will be significantly less favorable to Participants than outlined above if the shareholders fail to approve the Amendment within twelve months after its date of adoption. If shareholder approval is not timely received, the Purchase Plan will not qualify as an employee stock purchase plan under Code Section 423 and each Participant will be deemed to have taxable compensation income, subject to taxation at ordinary rates as well as social security taxation, upon exercising his or her purchase rights. The taxable income realized upon exercise would equal the amount by which the fair market value of the shares of Common Stock received on the purchase date exceeds the exercise price paid for the shares. This treatment would apply regardless of whether the purchase date occurs before or after expiration of the twelve-month shareholder approval deadline. In effect, each Participant would be taxable on the full discount he or she receives at the time of purchase. The Company would be required to withhold taxes with respect to the income deemed earned and would have to report that income to the Internal Revenue Service on each Participant's Form W-2 for the year of purchase.

Each Participant would then take a basis in his or her shares of Common Stock equal to their value on the purchase date. Any later sale of the shares at a price above that basis amount would result in long-term capital gain if the shares are held more than one year from the purchase date; short term capital gain would result if the shares are held one year or less. Sale of the shares of Common Stock at a price below the applicable basis amount would produce capital loss, again long term or short term depending upon whether or not held for more than one year.

The Company can provide no assurance that the shareholders will approve the Amendment within the twelve-month period required for continued qualification of the Purchase Plan under Code Section 423. Each prospective Participant must evaluate the tax risk associated with the potential uncertainty regarding future shareholder approval.

SELECTION OF AUDITOR

The Audit Committee of the Board of Directors has recommended, and the Board of Directors has selected, the firm of Arthur Andersen LLP, independent certified public accountants, to audit the financial statements of the Company for the fiscal year ending August 31, 2001, subject to ratification by the shareholders of the Company. The Board of Directors anticipates that one or more representatives of Arthur Andersen will be present at the Annual Meeting and will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE SHAREHOLDERS VOTE IN FAVOR OF THE PROPOSAL TO RATIFY THE SELECTION OF ARTHUR ANDERSEN, LLP AS INDEPENDENT CERTIFIED PUBLIC ACCOUNTS FOR THE COMPANY FOR THE FISCAL YEAR ENDING AUGUST 31, 2001.

OTHER MATTERS

As of the date of this Proxy Statement, the Board of Directors knows of no other matters to be presented for action at the meeting. However, if any further business should properly come before the meeting, the persons named as proxies in the accompanying form will vote on such business in accordance with their best judgment.

PROPOSALS OF SHAREHOLDERS

Proposals which shareholders intend to present at the annual meeting of shareholders to be held in calendar 2002 must be received by Val John Christensen, Executive Vice President, Secretary and General Counsel of the Company, at the Company's executive offices (2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331) no later than August 15, 2001.

ADDITIONAL INFORMATION

The Company will provide without charge to any person from whom a Proxy is solicited by the Board of Directors, upon the written request of such person, a copy of the Company's 2000 Annual Report on Form 10-K, including the financial statements and schedules thereto (as well as exhibits thereto, if specifically requested), required to be filed with the Securities and Exchange Commission. Written requests for such information should be directed to Franklin Covey Co., Investor Relations Department, 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331, Attn: Mr. Richard Putnam.

Franklin Covey International Locations

<u>Australia</u>

Brisbane Office
Franklin Covey Pty Ltd.
GPO Box 2769
Brisbane QLD 4001
Australia
(61-7) 3259-0222

Sydney Office
Franklin Covey Pty Ltd.
Suite 4602, Level 46

<u>Brazil</u>
Rua Alcides Ricardini neves 12-501
Brooklin, Sao Paulo
S.P. Brazil 04575-050
55 115507 7800
55 11 5506 6965 fax

<u>Canada</u>
60 Struck Court
Cambridge Ontario
N1R 8L2 Canada
(519) 740-2580
(800) 265-6655
(519) 740-8833 fax

<u>Japan</u>
Marumasu Koujimachi
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Chiyoda-Ku, Tokyo
102-0083 Japan
81-3-3264-7495
81-3-3264-7402 fax

<u>Mexico</u>

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Avenida Lozaro Cardenas
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San Pedro Garza Garcia
NL 66220 Mexico
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(52-8) 363-5314 fax

Mexico City Office
Florencia #39 Tercer Pisa
Col. Juarez,
Delgacion Cuahutemoc
Mexico DF 06600 Mexico
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(52-5) 511-9103 fax

<u>United Kingdom / Europe</u>
Grant Thorton House
46 West Bar Street
Banbury, Oxfordshire
OX169RZ England
(44) 1295 274 100
(44) 1295 274 101 fax

Executive Team

Robert A. Whitman
Chairman of the Board of Directors and Chief Executive Officer

Val John Christensen
Executive Vice President, Secretary and General Counsel

Stephen M. R. Covey
Executive Vice President, Organizational Solutions

John R. Harding
Executive Vice President, Marketing and Solutions

Don J. Johnson
Executive Vice President, Manufacturing and Distribution and Catalog

Darl McBride
Executive Vice President, Business Development

Mikell Rigg McGuire
Executive Vice President, International

J. Scott Nielsen
Executive Vice President, Finance

Marva Sadler
Executive Vice President, Business Plan Implementation

Douglas G. Smith
Executive Vice President, Technology Solutions and e-Commerce

Michael O. Willis
Executive Vice President, Global Sales and Alliances

D. Gordon Wilson
Executive Vice President, Consumer Sales Group

Board of Directors

Robert A. Whitman
Chairman of the Board of Directors

Hyrum W. Smith
Vice Chairman of the Board of Directors

Stephen R. Covey
Co-Vice Chairman of the Board of Directors

Stephen M. R. Covey
Executive Vice President, Organizational Solutions
Director

Robert H. Daines
Director

E.J. "Jake" Garn
Director

Dennis G. Heiner
Director

Brian A. Krisak
Director

Donald J. McNamara
Director

Joel C. Peterson
Director

E. Kay Stepp
Director

Steven C. Wheelwright
Director

Shareholder Information

Annual Meeting
We invite shareholders to attend our Annual Meeting of Shareholders at 11:00 a.m. on Friday, January 12, 2001, at the Hyrum W. Smith Auditorium on the Franklin Covey Co. headquarters campus, 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331.

Independent Accountants
Arthur Andersen LLP
15 West South Temple, Suite 700
Salt Lake City, Utah 84101-1533

Counsel
Parr Waddoups Brown & Gee
185 South State Street
Salt Lake City, Utah 84111

Registrar and Transfer Agent
Zions First National Bank, N.A.
Stock Transfer Department
One South Main Street
Salt Lake City, Utah 84111

Common Stock
FC Listed NYSE THE NEW YORK STOCK EXCHANGE
The Company's Common Stock is traded on the New York Stock Exchange under the ticker symbol FC. There were approximately 350 shareholders of record on the Company's record date of November 17, 2000.

Dividend
No dividends have been paid or declared on the Company's common stock.

Request for Additional Information
Additional financial information are available to shareholders. Requests should be directed to the attention of Investor Relations, Franklin Covey Co., 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331, or call at 801-975-1776. News releases, included earnings announcements, are available by fax 24 hours a day through Company News On-Call at 800-758-5804. The Franklin Covey extension is 107086. Additional information on the Company is available on the Internet at http://www.franklincovey.com.

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