FranklinCovey™

1999
Annual Report
Proxy Statement

MISSION

We inspire change by igniting the power of proven principles so that people and organizations achieve what matters most.

VISION

To be the premier personal and organizational effectiveness firm in the world
- Impacting millions of lives each year
- Generating superb financial results
- Building a great enduring company – a model of what we teach

GOVERNING VALUES

Character and Competence

Interdependence

Great Place to Work

Bias for Action

Continuous Improvement

Customer Focus

Extraordinary Financial Results

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Financial Highlights

AUGUST 31,	1999	1998	1997	1996	1995
In thousands, except share data					
Income Statement Data					
Sales	$554,923	$546,612	$433,272	$332,006	$277,122
(Loss) Income Available to Common Shareholders	(10,647)	40,058	38,865	34,239	38,746
Diluted Earnings Per Share	(0.51)	1.62	1.76	1.53	1.71
Balance Sheet Data					
Total Assets	$623,303	$597,277	$572,187	$268,445	$263,305
Long-Term Obligations	6,543	126,413	94,144	5,500	4,521
Shareholders' Equity	378,434	341,654	355,405	231,835	224,342

Common Stock Price Range	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Fiscal 1999				
High	$ 18 3/4	$12 15/16	$ 9 13/16	$ 7 13/16
Low	18 3/8	11 7/8	9 9/16	7 11/16
Close (at quarter end)	18 3/4	11 15/16	9 3/4	7 3/4
Fiscal 1998				
High	$ 28 1/8	$24 11/16	$ 25 3/4	$ 21 1/8
Low	21 1/8	20 3/4	19 1/4	18 9/16
Close (at quarter end)	21 3/16	24 3/8	20	18 3/4

To our Shareholders:

After weeks of struggling up the unclimbed Kangshung Face of Mt. Everest in 1981, a team of 10 expert climbers finally disbanded and left the mountain. Weeks earlier, the team had arrived at base camp, full of anticipation about the opportunity of being the first group to climb the most challenging face of Everest. There had, however, not been uniform confidence in the attainability of the goal, and even less agreement as to the precise route to be followed. As weeks passed, some lost faith and wanted to try for the summit via a less technical route. Others were frustrated with what they felt was inadequate preparation. Still some others, though committed, tired of the nearly dead-vertical ascent and left the mountain, taking necessary equipment with them. The fractured, angry team eventually left the mountain without reaching the summit, several never speaking to each other again.

Two years later, a new team of 11 climbers, led by the same team leader, committed themselves to the same ascent. This time however, in addition to the benefit of lessons learned from the first attempt, they went to great lengths to study every aspect of the mountain and consider alternative routes and the requirements of each. After months of intense study and meticulous logistical and physical preparation, the team developed a common vision, an agreement as to the specific route to be taken and a credible detailed plan for achieving their goal. This time, despite tremendous challenges and adversity, 10 of the 11 team members reached the summit of the world's highest mountain, the first team to climb the Kangshung Face.

Franklin Covey's "Everest"

For these climbers, the ultimate objective was to be the first group to summit the unclimbed face of Mount Everest. For Franklin Covey, the ultimate objective is to become the premiere firm in the world at helping organizations and individuals become more effective. We believe that there is a tremendous opportunity to obtain this objective.

- The market for personal and organizational effectiveness is very large. In its broadest sense, this market encompasses the entire $100 billion training industry, a portion of the desktop software market, most of the paper and electronic handheld planner, organizer and calendaring markets and a portion of the book, magazine, video, cassette and television programming markets.
- It has been growing rapidly, and is expected to continue to do so. In response to the changing economy, organizations are flattening their structures and delegating more managerial responsibilities to lower levels. Training is being viewed as a "revenue-generating investment" rather than as a cost center, demonstrating that organizations value their workforce. Economic changes driving these organizational changes include: the economic shift toward service, technology companies made-up of knowledge workers, an increasingly educated workforce, the increasingly global nature of business, and the pace of technological change.
- There is, as yet, no dominant player. The market is highly fragmented and no single firm has yet established unqualified leadership.
- Franklin Covey Strengths. There are strong historical bases around which an industry leader could build a sustainable competitive advantage in the organizational and personal effectiveness industry, and Franklin Covey has strengths in many of them: (a) it has some of the strongest brands in the training industry; (b) it has a very strong faculty of "stand-up" trainers, (c) it has one of the broadest and most impressive client lists in the industry and a strong sales force; (d) it has 20 million users of its implementation tools such as the Franklin Planner, Premier School Agendas, and Franklin Electronic Planners; and (e) it has an extraordinary product delivery network in its 128 retail stores.

In recent years, absent a defining market-focused vision and the attendant plans and systems, Franklin Covey has not fully capitalized on this market's tremendous growth opportunities.

- Financial performance. Revenue growth stalled in some core businesses, SG&A increased faster than revenues, inventories and receivables grew, inventory control problems and new competition created pressure on margins and profitability declined.
- Market-focus. Certain policies and practices created internal competition and distracted our focus from penetrating markets, serving customers and growing the business.
- Systems and processes in key areas. Certain systems did not keep pace with our growth, causing internal and external service problems.
- "High performance" culture. In some cases, we did not invest sufficiently in training our associates to adapt to the changing marketplace. Hiring and compensation policies did not always align the interests of our associates with those of our shareholders and customers.

Despite these challenges, Franklin Covey is still extremely well-positioned to become the leading player in the industry. However, we could lose this opportunity to become the industry leader if we fail to respond quickly and appropriately to market and customer changes.

Franklin Covey Plan

Since June of this year, we have undertaken a re-creation of the Company, focusing on building a strong foundation for renewed prosperity and growth: strategically, operationally, organizationally and financially. This re-creation aligns our products, services and channels to provide integrated solutions to organizations and individuals.

Financial Foundation - A critical part of the compelling business model and realignment program is building a firm financial foundation in three basic areas.

1. <u>Reducing the asset intensity of the business</u> – We are in the process of selling certain non-core assets, making appropriate balance sheet adjustments and reducing inventories and receivables to appropriate levels.
2. <u>Improving the predictability of our financial results</u> – We are focusing on enhancing our forecasting, budgeting and planning processes. In place of business analysts, we have established strong CFO positions in each strategic core business, responsible for planning and forecasting, balance sheet management and profitability.
3. <u>Insuring capital availability</u> – In June of 1999, Franklin Covey received a capital infusion of $75 million. We increased our bank credit facility and have commitments from those banks to syndicate a further expansion of our credit facility in early fiscal 2000. We also anticipate that cash flow from operations in fiscal year 2000 will be sufficient to meet expected growth needs this year.

Strategic Foundation – Franklin Covey's strong Franklin Planner and *The 7 Habits of Highly Effective People* brands have led some to a perception that we are "just" a planner or training company. However, Franklin Covey's actual and planned capabilities extend far beyond these two brands. Our focus in the future will be on providing integrated strategic solutions in Productivity, Leadership, Communication, Sales and other areas. Each solution set includes capabilities in profiling, assessment, measurement, consulting, training, implementation processes and application tools. We are also acquiring additional competencies to add to our current capabilities.

- One such acquisition was that of the Professional Resources Organization (Jack Phillips Group), a leading measurement assessment firm specializing in measuring impact and return on investment in training and consulting. Having the ability to measure the results of the training and consulting services we offer, as well as other training being used by clients, provides us with a significant competitive advantage in the industry. The ability for training companies to demonstrate to their clients a substantial return on investment for their training dollars is ranked by Merrill Lynch and Salomon Smith Barney analysts as one of the most important capabilities in differentiating among training firms.
- We strengthened our position in the sales training field with the acquisition of Khalsa Associates, a leading solutions sales training company. In July, we signed an agreement with Microsoft to train its worldwide sales force and its 21,000 sales channel partners utilizing this unique consultative sales training program.

- We are making significant additional investments in on-line planning, on-line learning, on-line profiling, desktop software and electronic products to integrate all of our existing tools and to meet the needs of our organizational and professional clients.
- We are completing a review of our non-strategic functions to determine whether they should be outsourced, sold, or re-positioned in order to focus on growing our business. As a result of that process, we entered into a contract to sell Publishers Press, our commercial printing arm and are reviewing other possible sale candidates.

Operational Foundation - To prepare the Company for profitable growth, we are focusing on reducing our cost structure, refining our business model and improving critical systems and processes.

- Reducing cost structure - We are reducing the Company's 4,200 associate base to approximately 3,600 worldwide. This will streamline the organization, and generate significant cost savings.
- Refining business models and processes – We are in the process of reengineering all our core business models. We are focusing on our core competencies and eliminating or outsourcing other activities.
- Focusing on critical systems and processes - We are focusing on getting the "six customer rights" right… right product at the right price and invoiced correctly, at the right time, in the right quantity and having the right quality. We are working diligently to make our core systems fully functional to support critical operations and processes. We are improving our ability to collect, analyze and utilize customer information to enhance customer relationships.

Organizational Foundation – To help create a high performance culture, we have made a number of changes.

- Setting new performance standards – Performance criteria have been established for every position. Each associate is being measured against these criteria. To help facilitate implementation of our new strategy, we have made changes in management leadership and responsibilities. Defining key roles and getting the right people in those roles will continue to be a focus this year. We are continuing our intense focus on corporate operations through a newly organized Operating Committee.
- Aligning the interests of employees and shareholders – In the future, employee compensation will be tightly tied to measurable performance standards and financial results. We will also require all senior management to have a significant personal investment in the stock of the Company.
- Moving closer to the customer – We have established eight regional sales offices with eight new managing directors located in New York, Chicago, Los Angeles, San Francisco, Columbus, Dallas, Atlanta and Washington, D.C. We are also in the process of moving our organizational sales force into the field to be closer to our customers. We believe that this will increase our ability to help clients succeed and increase our sales productivity. This move has allowed us to consolidate a number of operations into our Salt Lake City headquarters and dramatically reduce our leased space in Provo, Utah. We have also implemented a new sales compensation plan, a new business development model, new sales tools and established a sales training "boot camp."

Still Much to Do

Against these objectives, there have been a number of early wins. However, we realize there is still much to do. Repositioning Franklin Covey to take full advantage of the rapidly growing market opportunity will continue throughout fiscal 2000. We will continue to focus on our strategic, organizational, operational and financial initiatives. We do not believe the financial market is adequately reflecting the opportunity and potential we see. As we make these changes, we are confident the markets will respond accordingly. We gratefully acknowledge that many of you have held firm with us through these difficult times and appreciate your willingness to continue as shareholders.

Robert A. Whitman
Chairman of the Board of Directors

Hyrum W. Smith
Vice Chairman of the Board of Directors

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, 1999

☐ 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, 1998, based upon the closing sale price of the Common Stock of $8.38 per share on that date, was approximately $172,068,417. 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, 1999, the Registrant had 20,533,224 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 28, 2000, 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 increasing the effectiveness of individuals and organizations. To achieve that goal, the Company provides consulting services, training and education programs, educational materials, publications, assessment and measurement tools, implementation processes, application tools and products designed to empower individuals and organizations to become more effective. The Company's offerings include a comprehensive time and life management system that enables individuals to better manage their time by identifying goals and prioritizing the tasks necessary to achieve them. The Company also provides training and education, consulting services and products designed to improve organizational effectiveness, leadership skills, written and oral business communication skills, sales skills, performance skills and the ability to measure the impact of training investments. Franklin Covey also offers book and commercial printing services. To facilitate implementation of the principles it teaches, the Company produces and markets its primary product, the Franklin Planner®.

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, and through its sales catalog, its retail stores, and its e-commerce Internet site at www.franklincovey.com. At August 31, 1999, Franklin Covey had 125 domestic retail stores located in 36 states and the District of Columbia. A significant percentage of the users of the original Franklin Planner continue to purchase a renewal planner each year, creating substantial recurring sales. In recent years, the Company has also made the Franklin Planner system available in desktop software and as an add-on to the popular 3Com Palm® Computing organizers and Windows CE® hand-held devices. The Company also recently released an extension to Microsoft Outlook® that incorporates Franklin Planner principles into the Outlook calendar 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* 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 and retail stores.

Domestic consumer product sales, consisting primarily of the Franklin Planner and related products, accounted for 48% of the Company's sales during the year ended August 31, 1999.

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 three 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 website, 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.

In fiscal 1999, the Company provided products and services to 83 of the Fortune 100 and more than 75% 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 educational institutions.

Domestic training and education sales, including training presented by client facilitators, accounted for 38% of the Company's sales, representing approximately 530,000 individuals trained, during the year ended August 31, 1999.

The Company also provides products, consulting and training services internationally, either through directly operated offices, or through licensed providers. At August 31, 1999, Franklin Covey had direct operations in Canada, Japan, Australia, New Zealand, Mexico, Bahrain, Belgium and the United Kingdom. The Company also had licensed operations in 33 countries, including Mexico and the United Kingdom. During the year ended August 31, 1999, the total sales of the direct operations and royalties from the licensed operations were $50.5 million and accounted for 9% of total Company revenue.

Effective October 1, 1996, the Company acquired the assets of TrueNorth Corporation ("Personal Coaching"), a training company headquartered in Salt Lake City, Utah. Personal Coaching provides post-instruction personalized coaching to corporations and individuals to augment the effectiveness and duration of quality training curricula.

Effective March 4, 1997, the Company acquired the assets of Premier Agendas, Inc., and Premier School Agendas, Ltd. (collectively, "Premier"), the leading provider of academic and personal planners for students from kindergarten to college throughout the United States and Canada. Premier has a user base of approximately twelve million students.

Effective June 2, 1997, Covey Leadership Center, Inc. ("Covey") was merged with and into the Company (the "Merger") and the name of the Company was changed to Franklin Covey Co. Management believes that the Merger positions the Company as a leading provider of products and training services designed to increase the effectiveness of individuals and organizations. The Merger broadened the range of products and services offered to include Covey's top–rated leadership programs, "The 7 Habits of Highly Effective People®" and "Four Roles of Leadership®," increased the Company's capacity to develop and market new programs and products and created the potential for significant efficiencies and synergies as distribution and production facilities were combined.

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.

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

Based upon its belief that organizational and individual productivity require effective time management, the Franklin Planner has been developed as the basic tool 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. 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, 1999, domestic product sales, consisting primarily of the Franklin Planner and related products, amounted to $264.3 million and accounted for 48% of Franklin Covey's sales during the period.

<u>Paper Planners.</u> 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, 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.

<u>Binders</u>. Franklin Covey offers binders and accessories (briefcases, portfolios, wallets/purses, leather care products, 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 configura-

tions to accommodate credit cards, business cards, checkbooks and writing instruments. The Company's binder products range in price from $19.00 to $330.00.

Electronic Solutions. The Company also offers its time and life management methodology within a complete Personal Information Management ("PIM") system known as the Franklin Planner Software (formerly ASCEND®) program. This system can be used in conjunction with the paper-based Franklin Planner 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 and NT 4.0 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.

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 Computing organizer is a handheld electronic device manufactured by 3Com®. 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 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 Planner 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.

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, *Priorities*™ magazine, 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, including check registers, spreadsheets, 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 155 training consultants in major metropolitan areas of the United States with an additional 38 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 re-design; 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 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 an impactful experience and frequently generates additional business. During fiscal 1999, more than 530,000 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% 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; Planning for Results™; Building Trust™; Managing Change™; and Power of Understanding™. 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 27% 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.

Personal Coaching. Franklin Covey offers post-seminar training in the form of personal coaching. The Company employs 41 coaches that interact with clients on the telephone to help them implement the training from the seminar they have taken. The Company offers personal coaching for some of its own curriculum as well as seminars offered by other training companies.

Sales of training and education services for the year ended August 31, 1999 were $210.6 million and accounted for 38% 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)					
	1999		1998		1997	
Domestic Consumer Products	$264,333	47.6%	$258,973	47.4%	$223,135	51.5%
Domestic Training and Education	210,621	38.0	207,015	37.9	154,595	35.7
International	50,535	9.1	45,068	8.2	23,927	5.5
All Other	29,434	5.3	35,556	6.5	31,615	7.3
Total Sales	$554,923	100.0%	$546,612	100.0%	$433,272	100.0%

Domestic Consumer Products. 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 375 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, 1999, Franklin Covey had 125 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.

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. In November 1998, the Company completed a pilot agreement to sell selected Franklin Planners and binders through Office Depot, a mass-market retail operation with approximately 580 stores. The agreement allowed Office Depot to market and sell selected Franklin Planners, renewal planners, master packs, binders and accessories in a four-foot retail shelf location in their stores. The results of this initial arrangement were not satisfactory. The Company has discontinued its relationship with Office Depot and does not intend to market its basic products through this channel in the near future.

In January 1998, the Company formed 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 220 sales professionals who service major metropolitan areas throughout the United States and sell training services to institutional clients. Franklin Covey employs an additional 53 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 155 training consultants throughout the United States who present institutional and public seminars in their respective territories and an additional 38 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.

Premier markets agendas to schools and school districts in order to help teachers and students enhance the learning process. Premier sold more than 14.5 million agendas in fiscal 1999, 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, Bahrain, 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, South Africa, Chile, Panama, Netherlands Antilles, 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 $50.5 million in revenue in the year ended August 31, 1999. Training and education services generated 53% of the revenue, consumer product generated 43%, 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 $68.3 million.

Printing Services. 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. Publishers Press also provides book and commercial printing services to clients in the western United States. The Company has announced its intention to sell the commercial part of this printing operation, and expects that transaction to be completed in fiscal 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; and 3Com 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 1999 domestic training and education sales of approximately $210 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 re-engineering firms, as Franklin Covey's approach complements rather than competes with the offerings of such firms.

Products. The paper-based time management and personal organization products market is intensely competitive and subject to rapid change. Franklin Covey competes directly with other companies that manufacture and market calendars, planners, personal organizers, appointment books, diaries and related products through retail, mail order and other direct sales channels. In this market, several competitors have widespread name recognition. The Company believes its principal competitors include DayTimer, At–A–Glance and Day Runner. Franklin Covey also competes, to a lesser extent, with companies that market substitutes for paper-based products, such as electronic organizers, software PIMs and hand-held computers. The Company's Franklin Planner Software competes directly with numerous other PIMs. Many of Franklin Covey's competitors have significant marketing, product development, financial and other resources. An emerging potential source of competition is the appearance of calendars and event-planning services available at no charge on the Web. There is no indication that the current level of features has proven to be attractive to the traditional planner customer as a stand-alone service, but as these products evolve and improve, they are likely to pose a competitive threat. In response, Franklin Covey intends to combine online planning services with 3Com's Palm Computing organizers, Software 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 materially 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 is 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, 1999, Franklin Covey had 4,165 full and part-time associates, including 1,230 in sales, marketing and training; 1,530 in customer service and retail; 930 in production operations and distribution; and 475 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. All of Franklin Covey's Salt Lake City facilities are owned by the Company, subject to mortgages of approximately $3.3 million as of August 31, 1999. The Company's Provo, Utah operations consist of four buildings located within a fifteen-mile area. Franklin Covey occupies all or a portion of each of these buildings, with total leased space of approximately 173,000 square feet as of August 31, 1999. Lease contracts on the Provo buildings terminate intermittently through the year 2009. As part of its restructuring plan, the Company plans to formally exit two of the Provo buildings, representing approximately 119,000 square feet of office space, during fiscal 2000. In connection with the restructuring plan, the Company will move its sales and marketing functions for the training and education business from its Provo facilities to eight leased regional sales offices located in New York, Chicago, Los Angeles, San Francisco, Columbus, Dallas, Atlanta and Washington, D.C. The regional offices are expected to become fully operational during fiscal 2000. Remaining business functions previously located in the two Provo buildings will be moved to the Company's Salt Lake City headquarters. The Company estimates the cost to exit the Provo buildings to be $4.6 million and has charged this amount to current operations during the fourth quarter of fiscal 1999.

Franklin Covey also operates 125 retail stores currently under lease, with remaining terms of up to seven years; some of these leases include 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 Tokyo, London, Brussels, Toronto, Vancouver, Montreal, Brisbane, Mexico City, Monterrey and Auckland all under leases which expire intermittently through the year 2006. Franklin Covey's facilities are used exclusively by Franklin Covey and its divisions and are believed to be adequate and suitable for its current 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, 1999.

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 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 that are generally available in paper-based or electronic 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. The Company's best known products include the 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

Although the Company is currently in the process of restructuring its operations, the above SBUs represent 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 its retail stores, catalog sales, mass markets, contract stationers, government channels, wholesale channel 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 corporations, 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 operations 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.

Subsequent to August 31, 1999, the Company acquired the assets of the Professional Resources Organization (the Jack Phillips Group) for $1.5 million. 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 currently publishes *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. No contingent payments have been paid or accrued based upon King Bear's fiscal 1999 operating results.

During fiscal 1997, Franklin Quest Co. merged (the "Merger") with Covey Leadership Center ("Covey") to form Franklin Covey Co. In connection with the Merger, the Company issued 5,030,894 shares of its common stock, valued at $22.16 per share, in exchange for all of the issued and outstanding capital stock of Covey. All outstanding options to purchase Covey common stock were converted into 382,100 options to purchase the Company's common stock, exerciseable at $5.97 per share. In addition, the Company also acquired certain license rights for $27.0 million in cash.

On March 1, 1997, the Company acquired Premier Agendas, Inc., and Premier School Agendas, Ltd., located in Bellingham, Washington, and Abbotsford, British Columbia, respectively (collectively, "Premier"). Premier manufactures and markets academic and personal planners for students from kindergarten to college throughout the United States and Canada. Premier's business is seasonal in nature and nearly all of its revenue is recognized during the Company's fourth fiscal quarter. The combined cash purchase price was $23.2 million with additional contingent payments to be paid over the following three years, based upon Premier's operating performance over that same time period. As of August 31, 1999, the Company has made aggregate contingent payments of $21.5 million and has accrued an additional $10.9 million at August 31, 1999 for the final contingent payment.

Effective October 1, 1996, the Company acquired the net assets of TrueNorth Corporation ("Personal Coaching"). Personal Coaching, a Utah Corporation, is a provider of post-instructional personal coaching to corporations and individuals. Personal Coaching develops and delivers one-on-one personalized coaching which is designed to augment the effectiveness and duration of training curricula. The purchase price was $10.0 million with additional contingent payments to be paid over the following five years, based on the operating results of Personal Coaching. As of August 31, 1999, the Company has made aggregate contingent payments of $5.3 million and has accrued an additional $5.0 million at August 31, 1999 for the third contingent payment.

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 are 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 restructure is 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 Company's statement of income for the fiscal year ended August 31, 1999. Included in the restructuring charge are costs to provide severance and related benefits as well as costs to formally exit the leased office space. The Company anticipates completion of the restructuring plan by the end of fiscal 2000 and may incur additional expenses to complete the plan.

As part of the restructuring, the Company will provide severance and related benefits to employees affected by the changes. The cost to provide these benefits under the restructuring plan is estimated to be $11.7 million and covers a reduction of approximately 600 employees across all areas of the business. As of August 31, 1999, 115 employees had left the Company as part of the reduction plan. Subsequent to August 31, 1999, an additional 61 employees have left the Company in connection with this plan.

Also included in the restructuring provision is a charge to exit the majority of the Company's leased office space in Provo, Utah. These facilities currently contain 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 will be 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 will be moved to the Company's corporate headquarters located in Salt Lake City, Utah. The Company anticipates the costs to exit the facilities and sublease the space to be approximately $4.6 million.

YEAR 2000 ISSUES

The Company has been actively engaged in assessing and correcting potential year 2000 ("Y2K") information system concerns throughout fiscal 1999. During fiscal 1997, the Company initiated a business reengineering and information system implementation project (the "Project") that affects nearly every aspect of the Company's operations. In an effort to address Y2K compliance issues, the scope of the Project was expanded to ensure Y2K compliance for newly acquired software and hardware as well as test existing systems for compliance. From this process, a team representing different areas of the Company was assembled to specifically work toward timely Y2K compliance. As of August 31, 1999, the Company's progress toward completion of Y2K remediation projects is as follows:

State of Readiness

The Project has three significant phases that are designed to improve both operating processes and information systems capabilities. The first phase of the Project included hardware and software for the Company's financial reporting and manufacturing operations and was made operational in August 1998. Phase two focused on payroll and human resource applications and became operational in January 1999. Phase three addresses the "Order to Collect" systems and is expected to be completed in various stages through the year 2000 with critical applications to be made Y2K compliant before the end of 1999.

Within the framework of this Project, the Company's information systems fall into four general categories: (i) Financial, (ii) Supply Chain, (iii) Order to Collect, and (iv) Office Support. The Financial system includes the general ledger, accounts payable, sales and use tax calculations, payroll and human resources applications. Phase one of the Project provided systems and hardware that are Y2K compliant for the general ledger, accounts payable and sales and use tax calculations. Payroll and human resource systems were the subject of phase two, which was made operational with compliant hardware and software in January 1999. The Supply Chain system includes applications for production planning, purchasing and product management. During the fourth quarter of fiscal 1999, the Company completed upgrading Supply Chain systems with the implementation of a new inventory management system. Supply Chain systems were elements of phases one and three and have been certified by the hardware and software manufacturers as Y2K compliant. The Company's Order to Collect system includes legacy applications for order entry, seminar registration, retail sales, order fulfillment, order shipping, invoicing and collections. These systems will be affected by phase three of the Project and completion is expected in various stages through the year 2000. The Office Support system includes network hardware and operating systems, servers, desktop and laptop computers and includes applications not specifically addressed by the Project.

In order to correct possible Y2K problems, the Company has developed a plan to assess potential Y2K problems, prioritize identified problems as critical or non-critical, test compliance of critical systems and implement solutions for all critical systems. To ensure Y2K readiness, all significant Company systems, including completed Project modules, were subject to assessment and testing. The Company has completed its assessment of office support systems and applications that could have a significant impact on the Company's ability to sell and deliver its products and services. Following the assessment, all problems were prioritized in order to mitigate problems with business-critical systems. This includes network hardware and operating systems, servers and desktop and laptop computers. The Company's office support systems compliance analysis is also completed. The operating systems, server hardware and desktop computers are tested and are Y2K compliant. The networking environment is 90% completed with the remaining 10% representing architectural changes that eliminate software and hardware that will not be made compliant by the vendor or are deemed unnecessary by changing technology. The completion date for this phase of testing is expected to be November 30, 1999.

The Company's support system applications include two categories of products. The first category represents purchased, or "off the shelf" applications. The second category represents applications developed inside the company. Certifications of compliance for purchased applications have been obtained from the various software vendors. The Company is confident that all necessary updates have been made based on vendor instructions, and at this point, the Company is reliant on the latest compliance information gathered from its vendors. The Company is currently monitoring its software vendors for changes to their Y2K compliance statements. Applications developed in-house have also been reviewed. Code analysis and process tests will continue through December 31, 1999. The Company is confident, based on current analysis and test results that it will not be adversely affected by Y2K related problems. In addition, the Company's electronic data interface ("EDI") system has been replaced, tested and certified as Y2K compliant.

The Company is currently testing interfaces between processes of critical systems in a specially developed test environment that does not compromise current operations. Cross-functional processes include the interaction of the Company's Financial, Supply Chain, Order-to-Collect and Office Support systems. The Company expects that all critical systems will be tested and certified as Y2K compliant prior to December 31, 1999.

The Company's telecommunications department has completed all testing and analysis of equipment and services. Telecommunication vendor certification has also been completed. The telecommunication systems support the Company's call center and business voice systems, as well as data services connecting the Company to outside services including Internet and point-to-point connections.

Cost to Address Y2K Issues

As of August 31, 1999, the Company has acquired $10.0 million of hardware and $13.7 million of software in connection with the Project. Consultants were also engaged to implement software modules and improve business processes, but not necessarily to provide specific Y2K remediation services. The Company does not expect to spend further material amounts for direct costs related to the assessment and correction of potential Y2K issues.

Risk of the Company's Y2K Issues

The primary Y2K risk to the Company is from external vendors and service providers. As part of its assessment of Y2K issues, the Company has gathered information from its suppliers and other external vendors regarding their Y2K compliance status. Based upon information received, the most significant risk to the Company appears to be from certain critical international suppliers that, despite their best efforts, may be affected by utility outages and may not be able to meet delivery deadlines. The Company has obtained Y2K compliance information from its two largest shipping service providers and does not believe that Y2K issues will adversely affect product shipments. Based upon inquiry responses, the Company does not anticipate any significant problems from its utility, telephone and financial service providers. Although the Company is not aware of any other external risks, the Company has no means of ensuring that all external vendors and service providers will be Y2K compliant. The inability of certain external vendors or service providers to complete their Y2K remediation efforts in a timely manner could materially affect the operations of the Company. However, the effect of Y2K non-compliance by external vendors is not readily determinable.

The Company has also assessed Y2K compliance issues related to its products available for sale and does not believe that Y2K presents a material exposure to the Company related to its products.

Contingency Plans

The Company is finalizing contingency plans and testing manual process scenarios for the critical functions within the business units. The plans are expected to be complete prior to December 31, 1999.

The Company's plan to complete Y2K remediation efforts is based upon management's best estimates, which are subject to numerous assumptions regarding future events, including the availability of certain resources and other circumstances beyond the control of management. Estimated completion dates and total costs are based upon current levels of activity and specific efforts to correct potential Y2K problems. However, there can be no guarantee that stated estimates can be achieved and actual results may differ materially from current expectations. Specific factors that may result in material differences include, but are not limited to, availability of critical application corrections, the availability of required hardware and other similar uncertainties.

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,	1999	1998	1997
Sales	100.0%	100.0%	100.0%
Cost of sales	43.8	39.1	40.5
Gross margin	56.2	60.9	59.5
Operating expenses:			
Selling, general and administrative	42.4	40.5	37.9
Depreciation and amortization	7.1	6.1	4.8
Merger related expenses			1.3
Restructuring costs	2.9		
Loss on impaired assets	3.0		
Total operating expenses	55.4	46.6	44.0
Income from operations	0.8	14.3	15.5
Interest income	0.2	0.4	0.3
Interest expense	(1.8)	(1.5)	(0.5)
Net interest expense	(1.6)	(1.1)	(0.2)
(Loss) income before provision for income taxes and change in accounting principle	(0.8)	13.2	15.3
Provision for income taxes	(0.8)	5.5	6.3
(Loss) income before change in accounting principle	(1.6)	7.7	9.0
Cumulative effect of change in accounting principle, net of tax		(0.4)	
Net (loss) income	(1.6)	7.3	9.0
Preferred dividends	(0.3)		
(Loss) income available to common shareholders	(1.9)%	7.3%	9.0%
Sales Data:			
Consumer Products	47.6%	47.4%	51.5%
Training and Education	38.0	37.9	35.7
International	9.1	8.2	5.5
Other	5.3	6.5	7.3

FISCAL 1999 COMPARED WITH FISCAL 1998

Sales

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

YEAR ENDED AUGUST 31,	1999	1998	1997
Consumer Products	$264,333	$258,973	$223,135
Training and Education	210,621	207,015	154,595
International	50,535	45,068	23,927
Other	29,434	35,556	31,615
	$554,923	$546,612	$433,272

Consumer Products sales increased $5.4 million, or 2%, 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 2% 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 such as the Palm V™ by 3Com® bundled with the Company's new Franklin Planner™ software, 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 increased by $3.6 million, or 2%, compared to the prior year. Sales increases from Premier, Personal Coaching and direct product channels were partially 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% increase in sales, primarily from new customers. New business in both Personal Coaching and the direct-products channel resulted in increased sales during fiscal 1999. These increases in training and education sales were partially offset by decreased sales in core training sales, primarily from corporate/on-site and facilitated programs for leadership training. In response to disappointing sales performance in core training programs, the Company is relocating its sales force to eight regional sales offices. These sales offices are designed to bring customers and the sales force closer together to achieve deeper market penetration and growth. The field offices are expected to become fully operational during fiscal 2000. In connection with the move to regional sales offices and other restructuring activities, the Company anticipates that training program sales performance in fiscal 2000 may be adversely affected. The Company anticipates the benefits associated with the restructuring of its sales force to favorably impact sales performance beginning in late fiscal 2000. 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 $5.5 million, or 12%, 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%, 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 consists of sales less cost of sales. 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 56.2% of sales for fiscal 1999, compared to 60.9% 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 ("SG&A") expenses increased $13.7 million, to 42.4% of sales, compared to 40.5% 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 has also spent significant amounts to improve its electronic commerce infrastructure to meet changing consumer preferences and has committed significant resources to development of its Internet web site and other on-line products and services. During the fourth quarter, 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 Project and the addition of leasehold improvements for new stores. Equipment and software purchased in connection with the 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 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 intends to reduce its workforce from 4,200 employees to approximately 3,600 employees. The cost to provide severance and related benefits is estimated to be $11.7 million. As of October 31, 1999, 176 employees had left the Company as part of the restructuring plan. Also included in the restructuring provision is a charge to exit certain leased office space in Provo, Utah. These facilities currently accommodate sales, marketing and other functions primarily aligned with the Training and Education SBU. The Company anticipates the costs to exit the facilities and sublease the space to be $4.6 million. The restructuring plan is expected to be completed by the end of fiscal 2000 and other restructuring costs may be incurred in order to complete the plan.

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, 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 the results of its most recent 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 treasury 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 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. Based upon anticipated taxable income, the Company expects to incur an effective tax rate of approximately 45.1% during fiscal 2000. The increase over prior years will be primarily due to additional non-deductible goodwill generated from the final Premier contingent earnout payment.

Preferred Stock Dividends

During fiscal 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. The Preferred Stock dividends accrue at an annual rate of 10% 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 Preferred Stock dividend with the issuance of additional shares of Preferred Stock.

FISCAL 1998 COMPARED WITH FISCAL 1997

Sales

Total sales for the fiscal year ended August 31, 1998 increased $113.3 million, or 26%, compared to the prior year. The increase in sales was primarily the result of the Merger, an increase in the number of seminar participants and an increase in the number of planners, agendas and related products sold. Price increases did not have a material effect on increased sales between the periods.

Consumer Products sales increased $35.8 million, or 16%, compared to the prior year. Increased sales from the Company's retail stores, catalog operation and wholesale channel were partially offset by decreased sales at the government products group (formerly Productivity Plus). Retail store sales increased $17.1 million over the prior year, primarily as a result of 10 new stores that were opened during fiscal 1998. In addition, comparable store sales increased 3.0% compared to the prior year. At the end of fiscal 1998, the Company operated 120 retail stores. Catalog sales increased $9.7 million compared to the prior year due to the Merger and new customers. The Company's wholesale channel recognized increased sales due to the addition of new marketing agreements. Product sales to the U.S. government decreased due to changes in the government's procurement process.

Training and Education sales increased $52.4 million, or 34%, as compared to the prior year. The increase was primarily attributable to additional training program sales related to the Merger. In addition, school agenda sales through Premier increased $10.3 million compared to the prior year due to increased unit sales in the U.S. Sales from the Personal Coaching division also increased compared to the prior year due to new customers. Partially offsetting these increases were decreased sales through the Company's direct products channel. The decrease in direct product business was primarily due to the loss of a large customer in that channel.

International sales increased $21.1 million, or 88% compared to fiscal 1997. The increase was primarily due to the Merger and the fourth quarter acquisition of King Bear, a former Covey licensee, which operates in Japan.

Other sales increased $3.9 million, or 12%, compared to the prior year due to increased commercial sales at the Company's printing services subsidiary.

Gross Margin

Gross margin was 60.9% compared to 59.5% for the prior year. The increase was primarily due to an increase in higher margin training program sales resulting from the Merger. Generally, training sales have a higher gross margin than product sales, and during fiscal 1998, training program sales, which represent a significant portion of total Training and Education SBU sales, increased compared to the prior year.

Operating Expenses

Operating expenses include selling, general and administrative expenses as well as depreciation and amortization charges that occur in the normal course of business. Selling, general and administrative expenses increased to 40.5% of sales compared to 37.9% of sales during the prior year. The increase reflects the higher operating expenses, as a percentage of sales, of Covey, a full year of Premier operating expenses, the addition of

10 new retail stores and additional direct operations in Japan and Australia. Premier has seasonal sales which occur primarily in the Company's fourth fiscal quarter, but continues to incur selling, general and administrative expenses during the entire year.

Depreciation expense increased $6.0 million over the prior year due to purchases of computer hardware and software in connection with the Project, the addition of new printing presses and leasehold improvements related to the opening of new retail stores. Amortization charges increased $6.2 million compared to the prior year due to the amortization of intangibles acquired in connection with the Merger and contingent payments made to Premier and Personal Coaching during fiscal 1998.

Interest Expense

Interest expense increased $6.0 million compared to the prior year primarily due to increased debt used to purchase treasury stock during fiscal 1998.

Income Taxes

Income taxes were accrued using an effective rate of 41.5% for fiscal 1998 compared to 41.4% for the prior year. The increase was due primarily to additional non-deductible goodwill generated from the Merger and certain acquisitions.

Change in Accounting Principle

During fiscal 1998, the Emerging Issues Task Force (the "EITF") of the Financial Accounting Standards Board issued consensus ruling 97-13 which specifies the accounting treatment of certain business reengineering and information technology implementation costs. In connection with the Project, the Company has capitalized costs in accordance with generally accepted accounting principles. Certain previously capitalized costs of the Project were written off in accordance with EITF 97-13 as a cumulative adjustment during the Company's first quarter of fiscal 1998. The cumulative amount written off in fiscal 1998 was $2.1 million, net of tax.

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, 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)

YEAR ENDED AUGUST 31, 1998

	Q1	Q2	Q3	Q4
In thousands, except per share amounts				
Sales	$143,919	$138,564	$107,542	$156,587
Gross margin	87,269	85,068	64,814	95,573
Income before provision for income taxes	23,267	21,303	803	26,658
Income before accounting change	13,611	12,462	470	15,595
Cumulative effect of accounting change, net of tax	(2,080)			
Income available to common shareholders	11,531	12,462	470	15,595
Diluted income from continuing operations per share	.53	.49	.02	.67
Diluted net income per share	.45	.49	.02	.67

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's sales, which occur primarily in the Company's fourth quarter. In the Company's experience, catalog sales, retail store sales and 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 the fourth quarter of fiscal 1999, the Company initiated a restructuring plan that resulted in a $16.3 million charge to operations. In connection with the restructuring plan and upon review of certain goodwill, intangibles and other long-term assets, the Company also recognized a loss on impaired assets totaling $16.6 million. Also during the fourth quarter of fiscal 1999, the Company issued 750,000 shares of Preferred Stock for $75.0 million. The Preferred Stock dividends accrue at an annual rate of 10% and are payable quarterly in cash or additional shares of Preferred Stock until July 1, 2002. At August 31, 1999 the Company had accrued $1.9 million of Preferred Stock dividends which were paid subsequent to August 31, 1999 with the issuance of additional shares of Preferred Stock.

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 borrowings and proceeds from the sale of common stock. Working capital requirements have also been financed through short-term borrowing and line-of-credit financing. 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%, and are payable quarterly, at the Company's option, in additional shares of Preferred Stock until July 1, 2002. Subsequent to that date, all Preferred Stock dividends must be paid in cash. Accrued Preferred Stock dividends at August 31, 1999 totaling $1.9 million were subsequently paid with the issuance of additional shares of Preferred Stock.

Net cash provided by operating activities during fiscal years 1999 and 1998 was $36.0 million and $74.1 million, respectively. During fiscal 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 operations were increases in inventory of $12.0 million and increased receivables of $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 for expected costs to reduce the workforce and exit certain leased office space. Cash outlays for restructuring costs are expected to occur throughout fiscal 2000. 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. During fiscal 1998, adjustments to net income included $38.6 million of depreciation and amortization charges. The Company used $26.5 million to finance an increase in accounts receivable from seasonal sales by Premier, an increase in other assets and a decrease in accounts payable and accrued liabilities. A decrease in inventory and an increase in income taxes payable provided approximately $20.3 million of cash to operations.

Net cash used for investing activities during fiscal years 1999 and 1998 was $40.7 million and $43.8 million, respectively. During fiscal 1999, the Company paid $14.8 million in contingent earnout payments in connection with certain acquisitions. An additional $4.2 million was spent to acquire other businesses during the year, including Khalsa Associates, a sales training company.

The Company also received $1.3 million in cash from the sale of certain land and a non-business related building. In fiscal 1998, $11.9 million was paid as contingent payments related to the acquisitions of Premier and Personal Coaching, and $4.9 million of cash was used to acquire King Bear, a former licensee located in Japan. During fiscal 1998, the Company also sold its Institute of Fitness and certain consulting business units. The net cash received for these divestitures was $12.1 million. Funds invested in property, plant and equipment during fiscal years 1999 and 1998 were $23.0 million and $39.2 million, respectively. Capital expenditures during 1999 consisted primarily of an addition to one of the Company's buildings, new store leasehold improvements, computer hardware and software, and other manufacturing equipment. Fiscal 1998 expenditures were primarily for new computer hardware and software in connection with the Project, new store leasehold improvements, printing presses and other manufacturing equipment.

The Company had net cash proceeds of $2.4 million from financing activities for the year ended August 31, 1999. 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. At August 31, 1999, the Company had approximately 1,000,000 shares remaining under Board authorized treasury stock purchase plans. The primary source of cash from financing activities during fiscal 1999 was the issuance of 750,000 shares of Series A Preferred Stock for $75.0 million. During fiscal 1998, the Company used $21.6 million of cash for financing activities. Fiscal 1998 financing activity was the result of $120.0 million received from the issuance of unsecured senior notes and borrowings on the Company's long-term line of credit, combined with payments of $87.2 million on long-term debt instruments, and $57.0 million used to purchase treasury stock.

At August 31, 1999, the Company had unsecured bank lines of credit available for working capital needs totaling $75.0 million. The Company's lines of credit consisted of a $10.0 million short-term line of credit and a $65.0 million long-term credit facility. On August 31, 1999, the Company had $1.4 million outstanding on the short-term line of credit with interest at the lesser of the prime rate less .75% or the LIBOR rate plus 1.00%. No amounts were outstanding on the long-term line of credit at August 31, 1999. The line of credit agreement required the Company to maintain certain financial ratios and working capital levels. As a result of restructuring charges and losses on impaired assets, the Company was not in compliance with certain covenants of the line of credit agreement at August 31, 1999. Subsequent to August 31, 1999, the Company obtained a new line of credit agreement with existing lenders that maintained the $10.0 million short-term line of credit and increased the long-term line of credit to $100.0 million. The new line of credit requires the Company to maintain certain financial ratios and minimum net worth levels, excluding the financial impact of 1999 restructuring charges. Interest on the new line of credit agreement is at the lesser of the prime rate or the LIBOR rate plus 1.50%. The new line of credit agreement expires October 1, 2001.

During fiscal 1998, the Company privately issued $85.0 million of unsecured senior notes payable (the "Notes Payable"). The Notes Payable were due May 4, 2008 with interest at a fixed rate of 6.6%. The Notes Payable purchase agreement required the Company to maintain certain financial ratios and net worth levels until the Notes Payable are paid in full. As a result of the restructuring charge, the Company was not in compliance with certain terms of the Notes Payable at August 31, 1999. The Company did not obtain a waiver on the terms of the debt covenants, and subsequent to August 31, 1999, the Company retired the $85.0 million notes payable at par plus accrued interest. The Company utilized its expanded long-term line of credit to retire the Notes Payable.

Subsequent to August 31, 1999, the Company announced that it had filed a registration statement with the Securities and Exchange Commission ("SEC") related to a subscription offering for up to an additional 750,000 shares of Series A Preferred Stock. Shareholders of record on November 8, 1999 will receive a non-transferable right to purchase one share of Series A Preferred stock for every 27 common shares owned at a subscription price of $100 per share. The subscription offering is expected to expire on November 30, 1999. This offering is being made in connection with the issuance of Preferred Stock to a private investor during the Company's fourth quarter of fiscal 1999. The Preferred Stock shares being offered to shareholders are substantially identical to the Preferred Stock issued to the private investor. The Company's Board of Directors is making no recommendation as to whether shareholders should exercise or restrain from exercising their subscription rights.

Going forward, the Company will continue to incur costs necessary for the development of electronic commerce channels, 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 repositions itself for future growth.

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.

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 1999. However, at August 31, 1999, the Company did not have any derivative instruments outstanding. Corresponding gains and losses on derivative contracts were also immaterial for the year ended August 31, 1999. 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, 1999, the Company had not entered into derivative instruments to hedge its exposure to interest rate risk.

"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 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, Y2K issues, 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.

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 Securities and Exchange Commission.

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, 1999 and 1998, 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, 1999. 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 generally accepted auditing standards. 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 financial position of Franklin Covey Co. and subsidiaries as of August 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 1999 in conformity with generally accepted accounting principles.

Arthur Andersen LLP

ARTHUR ANDERSEN LLP
Salt Lake City, Utah
October 8, 1999

Consolidated Balance Sheets

AUGUST 31,	1999	1998
In thousands, except share data		
Assets		
Current assets:		
Cash and cash equivalents	$ 26,781	$ 27,760
Accounts receivable, less allowance for doubtful accounts of $4,074 and $2,840	92,500	83,621
Inventories	59,780	47,799
Income taxes receivable	3,912	
Other assets	28,673	16,113
Total current assets	211,646	175,293
Property and equipment, net	127,863	127,268
Goodwill and other intangibles, net	267,185	270,202
Other assets	16,609	24,514
	$623,303	$597,277
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 33,038	$ 24,496
Accrued compensation	10,414	14,051
Accrued acquisition earnouts	15,900	12,960
Accrued restructuring costs	16,200	
Other accrued liabilities	37,388	31,596
Income taxes payable		5,900
Current portion of long-term debt	90,010	3,562
Current portion of capital lease obligations	558	788
Total current liabilities	203,508	93,353
Line of credit		35,000
Long-term debt, less current portion	5,624	89,929
Deferred income taxes	34,818	35,857
Capital lease obligations, less current portion	919	1,484
Total liabilities	244,869	255,623
Commitments and contingencies (Notes 1, 6, 7, 9 and 18)		
Shareholders' equity:		
Preferred stock – Series A, no par value; convertible into common stock at $14 per share; 4,000,000 shares authorized, 750,000 shares issued at $100 per share	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	235,632	238,052
Retained earnings	199,125	209,772
Deferred compensation	(320)	(843)
Accumulated other comprehensive loss	(782)	(2,250)
Treasury stock at cost, 6,676,373 and 4,813,242 shares	(131,574)	(104,430)
Total shareholders' equity	378,434	341,654
	$623,303	$597,277

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income and Comprehensive Income

YEAR ENDED AUGUST 31,	1999	1998	1997
In thousands, except per share data			
Sales	$554,923	$546,612	$433,272
Cost of sales	243,132	213,888	175,602
Gross margin	311,791	332,724	257,670
Selling, general and administrative	235,003	221,303	164,057
Depreciation and amortization	39,539	33,028	20,800
Merger and integration costs			5,450
Provision for restructuring costs	16,282		
Loss on impaired assets	16,559		
Income from operations	4,408	78,393	67,363
Interest income	1,278	1,954	1,344
Interest expense	(9,912)	(8,316)	(2,344)
(Loss) income before provision for income taxes and cumulative effect of accounting change	(4,226)	72,031	66,363
Provision for income taxes	4,546	29,893	27,498
(Loss) income before cumulative effect of accounting change	(8,772)	42,138	38,865
Cumulative effect of accounting change, net of tax (Note 14)		(2,080)	
Net (loss) income	(8,772)	40,058	38,865
Preferred stock dividends	1,875		
Net (loss) income available to common shareholders	$(10,647)	$ 40,058	$ 38,865
(Loss) income from continuing operations per share:			
Basic	$ (.51)	$ 1.75	$ 1.83
Diluted	(.51)	1.70	1.76
Cumulative effect of accounting change, net of tax, per share:			
Basic		(.09)	
Diluted		(.08)	
Net (loss) income per share:			
Basic	$ (.51)	$ 1.66	$ 1.83
Diluted	(.51)	1.62	1.76
Weighted average number of common and common equivalent shares:			
Basic	20,881	24,091	21,201
Diluted	20,881	24,726	22,117
Comprehensive Income:			
Net (loss) income available to common shareholders	$(10,647)	$ 40,058	$ 38,865
Foreign currency translation adjustments	1,468	(1,316)	6
Comprehensive (loss) income	$ (9,179)	$ 38,742	$ 38,871

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

	Series A Preferred Stock		Common Stock		Additional Paid-in	Retained	Deferred Compen-	Accumulated Other Compre-hensive	Treasury Stock		Total Share-Holders'
	Shares	Amount	Shares	Amount	Capital	Earnings	sation	Loss	Shares	Amount	Equity
In thousands											
Balance at August 31, 1996			22,025	$1,101	$132,959	$130,849	$(1,240)	$(940)	(1,497)	$(30,894)	$231,835
Issuance of common stock in connection with merger			5,031	252	111,246						111,498
Value of options granted in merger					4,331						4,331
Tax benefit from exercise of affiliate stock options					1,654						1,654
Issuance of common stock from treasury					(11,340)				844	14,340	3,000
Purchase of treasury shares									(1,720)	(36,378)	(36,378)
Deferred compensation					849		(255)				594
Other comprehensive income								6			
Net income						38,865					38,865
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							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							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

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

YEAR ENDED AUGUST 31,	1999	1998	1997
In thousands			
Cash Flows From Operating Activities:			
Net (loss) income	$ (8,772)	$ 40,058	$ 38,865
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	43,547	38,626	23,576
Loss on impaired assets	16,559		
Deferred income taxes	(10,503)	613	(3,178)
Deferred compensation	522	652	594
Loss on sale of assets	673	317	8
Changes in assets and liabilities, net of effects from acquisitions:			
Increase in accounts receivable	(8,879)	(9,995)	(18,983)
(Increase) decrease in inventories	(11,981)	8,061	(1,068)
Increase in other assets	(3,868)	(12,044)	(13,397)
Increase (decrease) in accounts payable and accrued liabilities	10,966	(4,495)	18,783
Increase in accrued restructuring costs	16,200		
Increase (decrease) in income taxes payable	(8,491)	12,261	465
Net cash provided by operating activities	35,973	74,054	45,665
Cash Flows From Investing Activities:			
Acquisition of businesses, including earnout payments	(19,025)	(16,786)	(33,188)
Disposal of businesses	12,126		
Purchase of license rights			(27,000)
Purchases of property and equipment, net of effects from acquisitions	(22,996)	(39,239)	(20,189)
Proceeds from sale of property and equipment	1,288	84	366
Net cash used for investing activities	(40,733)	(43,815)	(80,011)
Cash Flows From Financing Activities:			
Net (decrease) increase in short-term borrowings	(2,229)	(889)	2,858
Proceeds from long-term debt and line of credit, net of effects from acquisitions	1,142	119,969	64,419
Payments on long-term debt and capital leases	(40,652)	(87,221)	(3,211)
Proceeds from issuance of Series A Preferred Stock	75,000		
Purchases of common stock for treasury	(32,710)	(57,013)	(36,378)
Proceeds from issuance of treasury stock	1,826	3,602	3,000
Net cash provided by (used for) financing activities	2,377	(21,552)	30,688
Effect of foreign exchange rates	1,404	(1,316)	6
Net (decrease) increase in cash and cash equivalents	(979)	7,371	(3,652)
Cash and cash equivalents at beginning of year	27,760	20,389	24,041
Cash and cash equivalents at end of year	$ 26,781	$ 27,760	$ 20,389

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 that are generally 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. 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 generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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, 1999, 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
Machinery and equipment	3-7 years
Furniture, fixtures and leasehold improvements	5-7 years
Buildings	15-39 years

Leasehold improvements are amortized over the lesser of the 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.

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 in accordance with authoritative accounting pronouncements (see Note 14). At August 31, 1999, the Company had $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.

Long-Lived Assets

The Company reviews for impairment of long-lived assets when events or changes in circumstances indicate that the book value of an asset may not be recoverable. The Company evaluates, at each balance sheet date, whether events and circumstances have occurred that indicate possible impairment. 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 certain related long-lived assets and related goodwill. Based upon the results of this review, the Company recognized a $16.6 million charge in the fourth quarter of fiscal 1999 on impaired assets related to the discontinued products and programs. The loss on impaired assets for the year ended August 31, 1999 is 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 future value to the Company. Impaired goodwill and other intangible assets are primarily comprised of goodwill generated from previous acquisitions whose products or services have been discontinued. Impaired other long-term assets primarily consists of capitalized costs for Project modules that were determined to have no future value. Impaired property and equipment is comprised of purchased software written off as 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

Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income", established a standard for reporting comprehensive income and its components within the financial statements. 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 translation adjustment account. The changes in the cumulative 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 ("FASB") 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. The statement also requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. In June 1999, the FASB issued SFAS No. 137, which deferred the application of SFAS No. 133 from fiscal years beginning after June 15, 1999 to fiscal years beginning after June 15, 2000. The application of SFAS No. 133 is not expected to have a material impact on the Company's financial statements.

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 are intended to align the Company's products, services and channels in a manner that focuses Company resources on providing integrated training and performance solutions to both individuals and organizations. The restructure is 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 statement of income for the fiscal year ended August 31, 1999. Included in the restructuring charge are costs to provide severance and related benefits as well as costs to formally exit the leased office space. The Company anticipates completion of the restructuring plan by the end of fiscal 2000 and may incur additional expenses necessary to complete the plan.

The cost to provide severance and related benefits is estimated to be $11.7 million and covers a reduction of approximately 600 employees across all areas of the business. As of August 31, 1999, 115 employees had left the Company as part of the reduction plan. Subsequent to August 31, 1999, an additional 61 employees have left the Company in connection with this plan.

Also included in the restructuring provision is a charge to exit the majority of the Company's leased office space in Provo, Utah. These facilities currently contain 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 will be 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 will be moved to the Company's corporate headquarters located in Salt Lake City, Utah. The Company anticipates the costs to exit the facilities and sublease the space to be approximately $4.6 million.

3. INVENTORIES

Inventories are comprised of the following (in thousands):

AUGUST 31,	1999	1998
Finished goods	$42,594	$32,141
Work-in-process	4,186	5,261
Raw materials	13,000	10,397
	$59,780	$47,799

4. PROPERTY AND EQUIPMENT

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

AUGUST 31,

	1999	1998
Land and improvements	$7,616	$10,382
Buildings	48,787	42,797
Machinery and equipment	113,592	91,841
Furniture, fixtures and leasehold improvements	50,209	52,128
	220,204	197,148
Less accumulated depreciation and amortization	(92,341)	(69,880)
	$127,863	$127,268

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

5. GOODWILL AND OTHER INTANGIBLE ASSETS

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

AUGUST 31,

	1999	1998
Goodwill	$131,595	$115,290
License rights	27,000	27,000
Curriculum rights	61,752	62,685
Trade names and other	94,777	98,476
	315,124	303,451
Less accumulated amortization	(47,939)	(33,249)
	$267,185	$270,202

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, 1999, the Company had unsecured bank lines of credit available for working capital needs totaling $75.0 million. The Company's lines of credit consisted of a $10.0 million short-term line of credit and a $65.0 million long-term credit facility. On August 31, 1999, the Company had $1.4 million outstanding on the short-term line of credit with interest at the lesser of the prime rate less .75% or the LIBOR rate plus 1.00%. The weighted average interest rate on short-term borrowings at August 31, 1999 was 7.75%. No amounts were outstanding on the long-term line of credit at August 31, 1999. In the accompanying consolidated balance sheets, the current line of credit is reported as a component of other accrued liabilities.

The line of credit agreement required the Company to maintain certain financial ratios and working capital levels. As a result of the restructuring and impaired asset charges, the Company was not in compliance with certain covenants of the line of credit agreement at August 31, 1999. Subsequent to August 31, 1999, the Company obtained a new line of credit agreement with existing lenders that maintained the $10.0 million current line of credit and increased the long-term line of credit to $100.0 million. The new line of credit requires the Company to maintain certain financial ratios and minimum net worth levels, excluding the financial impact of fiscal 1999 restructuring charges. Interest on the new line of credit agreement is at the lesser of the prime rate or the LIBOR rate plus 1.50%. The new line of credit agreement expires October 1, 2001.

Commitment fees associated with the lines of credit were immaterial for fiscal years 1999 and 1998.

Long-Term Debt

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

AUGUST 31,	1999	1998
Senior unsecured notes payable with interest at 6.6% due semi-annually, paid in full during October 1999	$85,000	$85,000
Note payable in quarterly installments of $574 including interest at 5.0% through April 2001	3,822	
Mortgage payable in monthly installments of $18 including interest at 8.5% through August 2016, secured by real estate	1,697	1,769
Note payable on demand, plus interest at 8.0%	1,481	1,749
Note payable to bank, payable in monthly installments of $20, including interest at 7.8% through August 2004, secured by equipment	976	
Note payable to bank, payable in monthly installments of $23, plus interest at prime plus .5% payable through September 2002, secured by real estate	869	1,152
Mortgage payable in monthly installments of $8 including interest at 9.9% through October 2014, secured by real estate	710	728
Note payable to a Japanese bank for YEN 60,000, payable in quarterly installments of YEN 20,000, due April 2000 including interest at 2.4%	548	996
Note payable, paid in full during January 1999		1,000
Other mortgages and notes, payable in monthly installments, interest ranging from 2.0% to 9.7%, due at various dates through 2003, secured by equipment, inventories and accounts receivable	531	1,097
	95,634	93,491
Less current portion	(90,010)	(3,562)
Long-term debt, less current portion	$5,624	$89,929

The $85.0 million senior unsecured notes payable required the Company to maintain certain financial ratios and net worth levels until the notes are paid in full. As a result of the restructuring and impaired asset charges, the Company was not in compliance with certain terms of the notes at August 31, 1999. The Company did not obtain a waiver on the terms of the debt covenants, and subsequent to August 31, 1999 the Company retired the $85.0 million notes payable at par plus accrued interest. The Company utilized 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 consolidated balance sheet at August 31, 1999.

Future maturities of long-term debt at August 31, 1999 are as follows (in thousands):

YEAR ENDING AUGUST 31,	
2000	$90,010
2001	2,456
2002	652
2003	372
2004	336
Thereafter	1,808
	$95,634

7. LEASE OBLIGATIONS

Capital Leases

Future minimum lease payments for equipment held under capital lease arrangements as of August 31, 1999 are as follows (in thousands):

YEAR ENDING AUGUST 31,	
2000	$ 652
2001	592
2002	391
Total future minimum lease payments	1,635
Less amount representing interest	(158)
Present value of future minimum lease payments	1,477
Less current portion	(558)
	$ 919

Total assets held under capital lease arrangements was $4.0 million with accumulated amortization of $1.8 million as of August 31, 1999. Amortization of capital lease assets is included in depreciation and amortization expense.

Operating Leases

The Company leases certain retail store and office locations under noncancelable operating lease agreements with remaining terms of one to eight years. The following summarizes future minimum lease payments under operating leases at August 31, 1999 (in thousands):

YEAR ENDING AUGUST 31,	
2000	$11,600
2001	8,803
2002	7,932
2003	7,325
2004	5,711
Thereafter	14,409
	$55,780

Total rental expense for leases under operating lease terms was $17.6 million, $16.8 million, and $11.7 million for the years ended August 31, 1999, 1998 and 1997, respectively. Contingent rental expense, primarily from retail stores, for the fiscal years ended August 31, 1999, 1998, and 1997 totaled $5.4 million, $4.1 million, and $3.5 million, respectively. Contingent rental payments are generally based upon a percentage of retail store sales, which are seasonally high during the Company's first and second fiscal quarters.

As described in Note 2, the Company intends to exit certain leased office space in Provo, Utah. The foregoing operating lease minimum payment schedule includes future minimum rents on the office space in Provo. Annual rent expense on the leased office space is approximately $2.1 million and represents the majority of minimum rent payments after 2004.

8. 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 $33.0 million, $26.7 million, and $18.9 million for the years ended August 31, 1999, 1998, and 1997, respectively. Prepaid catalog and seminar mailer costs reported in other current assets were $5.7 million and $4.4 million at August 31, 1999 and 1998, respectively.

9. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

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

Legal Matters

The Company is the subject of certain legal actions, which it considers routine to its business activities. As of August 31, 1999, 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.

10. RELATED PARTY TRANSACTIONS

As part of the Preferred Stock transaction completed during fiscal 1999 (Note 11), an affiliate of the investor was named Chairman of the Board of Directors and interim Chief Executive Officer. The new Chairman and interim CEO was previously a member of the Company's Board. In addition, two affiliates of the investor were appointed to the Board of Directors. In connection with the Preferred Stock offering, the Company pays an affiliate of the investor a monitoring fee of $100,000 per quarter.

In January 1999, the Company issued 1,450 shares of its common stock to each member of the Board of Directors for $17.25 per share. The purchase price was paid in the form of secured promissory notes that are payable in three annual installments beginning on March 31, 1999. A portion of each note payment will be forgiven by the Company based on the Company's earnings per share during the preceding fiscal year. The notes are secured by the shares of stock retained in the Company's possession pursuant to the terms of a security agreement.

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 foregoing shares were purchased at the existing fair market value on the date of the transaction.

During fiscal years 1998 and 1997, the Company purchased 500,000 and 750,000 shares of its common stock for $12.0 million and $18.0 million in cash, respectively, from the Vice-Chairman of the Board of Directors (formerly the Chairman of the Board). All shares were purchased at the existing fair market value on the dates of the transactions.

During the fiscal years ended August 31, 1999, 1998 and 1997, the Company purchased 92,000, 100,000 and 110,000 shares of its common stock for $1.2 million, $2.5 million and $2.4 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 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.

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 $3.3 million and $1.5 million at August 31, 1999 and 1998, respectively. In addition, Premier had notes payable to key employees totaling $1.5 million and $1.8 million at August 31, 1999 and 1998, 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, under a long-term agreement, leases buildings from a partnership that is partially owned by a Vice-Chairman of the Board of Directors (formerly the Co-Chairman) and certain officers of the Company. Rental expense paid to the partnership totaled $2.1 million, $1.8 million, and $0.4 million during fiscal years 1999, 1998, and 1997, respectively.

The Company pays a Vice-Chairman of the Board of Directors (formerly the Co-Chairman) a percentage of the proceeds received for seminars that are presented by the Vice-Chairman. During the years ended August 31, 1999, 1998, and 1997, the Company paid approximately $3.0 million, $2.4 million, and $0.2 million, respectively, for such seminars.

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 over the next two years.

11. CAPITAL TRANSACTIONS

Preferred Stock

On June 2, 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. The Preferred Stock dividends accrue at an annual rate of 10% 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 $1.9 million in Preferred Stock dividends as of August 31, 1999. Subsequent to August 31, 1999, the Company paid the Preferred Stock dividend 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 will rank senior to the Company’s common stock. Holders of the Preferred Stock have generally the same voting rights as common stock holders on an “as-converted” basis.

In connection with the issuance of the Preferred Stock, and subsequent to August 31, 1999, the Company announced that it has filed a registration statement with the Securities and Exchange Commission (“SEC”) related to a subscription offering for up to an additional 750,000 shares of Series A Preferred Stock. Shareholders of record on November 8, 1999 will receive a non-transferable right to purchase one share of Series A Preferred stock for every 27 common shares owned at a subscription price of $100 per share. The subscription offering is expected to expire on November 30, 1999. The Preferred Stock shares being offered to shareholders are substantially identical to the Preferred Stock issued to the private investor.

Treasury Stock

The Company sold 263,100, 247,069 and 844,342 shares of its common stock held in treasury as a result of the exercise of stock options and the purchase of shares under the Company's employee stock purchase plan for the years ended August 31, 1999, 1998 and 1997, respectively. These shares were sold for a total of $1.4 million, $3.6 million, and $4.9 million and had a cost of approximately $5.6 million, $5.5 million, and $14.3 million for the years ended August 31, 1999, 1998 and 1997, respectively. In October 1998 and March 1998, the Company's Board of Directors approved the purchase of up to 2,000,000 shares and 3,000,000 shares, respectively, of the Company's common stock. During fiscal years 1999, 1998 and 1997, the Company purchased 2,126,000 shares at a cost of $32.7 million, 2,687,000 shares at a cost of $57.0 million, and 1,720,000 shares at a cost of $36.4 million, respectively. At August 31, 1999, the Company had approximately 1,000,000 shares remaining under Board authorized purchase plans.

Tax Benefit from Exercise of Affiliate Stock Options

During fiscal years 1999, 1998 and 1997, 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 $1.3 million, $0.3 million, and $1.7 million, respectively, which were recorded as increases to additional paid-in capital.

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.

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, 1999, 370,415 shares were available for granting 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, 1996	3,738,154	$18.36
Granted:		
At market value	747,340	19.03
In connection with the Merger	382,100	5.97
Exercised	(838,092)	4.32
Forfeited	(127,574)	22.91
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

Options exerciseable at August 31, 1999, 1998 and 1997 were 2,683,966, 2,261,935 and 2,269,399 and had weighted average exercise prices of $23.87, $22.65 and $22.04, respectively.

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,	1999	1998	1997
Net (loss) income available to common shareholders as reported	$(10,647)	$40,058	$38,865
Net (loss) income available pro forma	(16,181)	34,978	30,514
Diluted (loss) earnings per share as reported	(.51)	1.62	1.76
Diluted (loss) earnings per share pro forma	(.80)	1.41	1.38

Because the SFAS No. 123 method of accounting has not been applied to options granted prior to September 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

The following information applies to options outstanding at August 31, 1999:

- A total of 1,432,341 options outstanding have exercise prices between $1.11 and $9.69 per share, with a weighted average exercise price of $8.17 and a weighted average remaining contractual life of 8.9 years. At August 31, 1999, 156,308 options are exercisable.
- Options for 1,903,799 shares have exercise prices between $11.83 and $19.31 per share, with a weighted average exercise price of $17.57 and a weighted average remaining contractual life of 7.0 years of which 938,181 are exercisable at August 31, 1999.
- A total of 1,096,900 options have exercise prices between $20.00 and $26.82 per share, with a weighted average exercise price of $24.14 and a weighted average remaining contractual life of 5.9 years. At August 31, 1999, 738,352 options are exercisable.
- The remaining 851,125 options outstanding have exercise prices between $29.38 and $34.50 per share, with a weighted average exercise price of $34.15 and a weighted average remaining contractual life of 4.7 years of which 851,125 are exercisable at August 31, 1999.

The weighted average fair value of options granted under the Company's stock option plans during the fiscal years ended August 31, 1999 and 1998 were $4.79 and $11.17, respectively. The weighted average fair value of options granted under the Company's stock option plans during the year ended August 31, 1997 was estimated at $11.23 for options granted at the market price and $15.08 for options granted below the market price in connection with the Merger (Note 16).

The Black-Scholes option-pricing model was used to calculate the weighted average fair value of options using the following assumptions for grants in fiscal years 1999, 1998 and 1997:

YEAR ENDED AUGUST 31,	1999	1998	1997
Dividend yield	None	None	None
Volatility	55.8%	57.7%	61.5%
Expected life (years)	4.3	5.2	6.5
Risk free rate of return	5.3%	5.4%	6.1%

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 1999, 1998 and 1997 was $7.04, $13.62, and $4.41, respectively.

12. 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% 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, 1999, 1998, and 1997 were $1.7 million, $1.7 million, and $1.4 million, respectively.

Employee Stock Purchase Plan

The Company has an employee stock purchase plan which reserved up to 300,000 shares of common stock for issuance under the plan. Accordingly, shares of common stock can be purchased by qualified employees at a price equal to 85% of the fair market value of common stock at time of purchase. Shares totaling

66,019, 46,934, and 42,527 have been issued under this plan for the years ended August 31, 1999, 1998 and 1997, respectively. Shares available for issuance under this plan at August 31, 1999, were 16,764. The Company accounts for its employee stock purchase plan under the provisions of APB Opinion 25 and related interpretations.

13. INCOME TAXES

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

YEAR ENDED AUGUST 31,	1999	1998	1997
Current:			
Federal	$12,545	$24,620	$24,103
State	2,046	4,067	5,755
Foreign	2,077	1,920	790
Deferred:			
Federal	(10,422)	(614)	(2,544)
State	(1,700)	(100)	(606)
	$4,546	$29,893	$27,498

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,	1999	1998	1997
Federal statutory tax rate	(35.0)%	35.0%	35.0%
State income taxes, net of federal effect	(3.5)	3.5	5.0
Goodwill amortization	44.6	2.3	.8
Effect of foreign losses and tax rate differential	63.9		
Other	37.6	.7	.6
	107.6%	41.5%	41.4%

Goodwill amortization consists of non-deductible goodwill generated by the Merger and the acquisitions of Premier Agendas and Publishers' Press. During the fiscal year ended August 31, 1999, 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. 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 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,	1999	1998
Deferred income tax assets:		
Inventory and bad debt reserves	$ 4,897	$ 3,203
Sales returns and contingencies	2,248	993
Restructuring cost accrual	6,239	
Vacation and other accruals	2,559	2,454
Interest and other capitalization	855	431
Other	414	243
Total deferred income tax assets	17,212	7,324
Deferred income tax liabilities:		
Intangibles and fixed asset step-up	(30,896)	(31,647)
Depreciation and amortization	(1,537)	(2,203)
Other	(3,240)	(2,438)
Deferred income tax liabilities	(35,673)	(36,288)
Net deferred income tax liabilities	$(18,461)	$(28,964)

Current deferred tax assets are reported as a component of other current assets.

14. 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 generally accepted accounting principles. 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. The Company expects that any remaining costs of the Project will qualify for capitalization under current accounting guidelines.

The Company incurred significant costs associated with the Project during the fourth quarter of fiscal 1997. The following unaudited pro forma schedule presents the financial results of the Company as if the provisions of EITF 97-13 were adopted on September 1, 1996 (in thousands, except per share data):

YEAR ENDED AUGUST 31, 1997

	Actual	Pro Forma
		(unaudited)
Sales	$433,272	$433,272
Gross margin	257,670	257,670
Operating income	67,363	64,184
Net income	38,865	37,026
Net income per share:		
Basic	$ 1.83	$ 1.75
Diluted	1.76	1.67

15. NET INCOME 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,

	1999	1998	1997
(Loss) income before accounting change	$(8,772)	$42,138	$38,865
Cumulative effect of accounting change, net of tax		(2,080)	
Net (loss) income	(8,772)	40,058	38,865
Preferred stock dividends	1,875		
(Loss) income available to common shareholders	$(10,647)	$40,058	$38,865
Basic weighted-average shares outstanding	20,881	24,091	21,201
Incremental shares from Preferred Stock on an "as converted" basis	-	-	-
Incremental shares from the assumed exercise of stock options	-	635	916
Diluted weighted-average shares outstanding	20,881	24,726	22,117
(Loss) income from continuing operations per share:			
Basic	$(.51)	$1.75	$1.83
Diluted	(.51)	1.70	1.76
Cumulative effect of accounting change, net of tax, per share:			
Basic		(.09)	
Diluted		(.08)	
Net (loss) income per share:			
Basic	$(.51)	$1.66	$1.83
Diluted	(.51)	1.62	1.76

Due to their antidilutive effect, options to purchase common stock and the effect of the Preferred Stock on an "as converted" basis totaling 1,511,215 shares have been excluded from the EPS calculation for the year ended August 31, 1999. 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.

16. STATEMENTS OF CASH FLOWS

The following supplemental disclosures are provided for the Consolidated Statements of Cash Flows (in thousands):

YEAR ENDED AUGUST 31,	1999	1998	1997
Cash paid for:			
Income taxes	$22,701	$15,961	$27,916
Interest	9,219	5,991	2,042
Fair value of assets acquired	$19,025	$18,943	$88,208
Cash paid for net assets	(19,025)	(16,786)	(33,188)
Liabilities assumed from acquisitions	$ -	$ 2,157	$55,020
Tax effect of exercise of affiliate stock options	$ 1,320	$ 266	$ 1,654

Non-Cash Investing and Financing Activities

During the years ended August 31, 1999 and 1998, the Company accrued $15.9 million and $13.0 million, respectively, for earnout payments in connection with the acquisition of certain entities.

As of August 31, 1999 the Company had accrued $1.9 million of Preferred Stock dividends in connection with the issuance of 750,000 shares of Series A Preferred Stock (Note 11). Subsequent to August 31, 1999, the Company paid the accrued dividend with additional shares of Preferred Stock.

The Company financed the acquisition of certain software licenses with a note payable to the software vendor for $5.9 million.

Effective June 2, 1997, Franklin Quest Co. ("Franklin") and Covey Leadership Center ("Covey") merged (the "Merger") to form Franklin Covey Co. In the Merger, the Company issued 5,030,894 shares of its common stock in exchange for all of the issued and outstanding capital stock of Covey. The total value of the stock exchanged was approximately $111.5 million. In connection with the foregoing exchange, the Company issued 382,100 stock options, exerciseable at $5.97 per share and valued at approximately $4.3 million, in exchange for all of the outstanding options to purchase Covey stock.

In connection with recording the tax effects of the Merger and the acquisition of Premier, the Company recognized approximately $29.4 million of net deferred tax liabilities with a corresponding increase to goodwill.

During fiscal 1997, the Company received 84,779 shares of common stock with a fair market value of approximately $1.9 million as consideration for 684,000 stock options exercised at $2.78 per share. The common stock issued from treasury for the options exercised had a weighted average cost of $20.35 per share.

17. SEGMENT INFORMATION

Reportable Segments

During fiscal 1999, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 supersedes previous "industry segment" reporting requirements with a "management" approach for reporting operating segments as well as other disclosures about products and services, geographic regions and major customers.

During the first quarter of 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, 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, contract stationers, government channels, technology wholesale 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 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 Publishers' Press 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 and has a President who reports directly to the Company's Chief Executive Officer. Various corporate support departments are operated by an executive vice-president who also reports directly to the Chief Executive Officer. 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, 1999	Consumer Products	Training and Education	International	Total	All Others	Corporate, Adjustments and Elimination	Consolidated
Sales to external customers	$264,333	$210,621	$50,535	$525,489	$29,434		$554,923
Intersegment sales					33,669	$(33,669)	
Gross margin	147,080	132,922	29,448	309,450	2,341		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	21,566	2,227	(4,261)	19,532	(3,158)	(11,966)	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
YEAR ENDED AUGUST 31, 1997							
Sales to external customers	$223,135	$154,595	$23,927	$401,657	$31,615		$433,272
Intersegment sales					29,186	$(29,186)	
Gross margin	135,751	94,823	13,533	244,107	13,563		257,670
Depreciation and amortization	7,642	7,754	2,042	17,438	1,331	2,031	20,800
Segment earnings (loss) before interest and taxes	45,817	19,417	(1,823)	63,411	(901)	4,853	67,363
Capital expenditures	4,448	4,111	1,150	9,709	2,296	8,184	20,189
Segment assets	65,648	312,964	14,094	392,706	53,977	125,504	572,187

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 the restructuring charge, management has not allocated the components of the charge 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,	1999	1998	1997
Reportable segment EBIT	$ 19,532	$78,596	$63,411
All others EBIT	(3,158)	(3,866)	(901)
Corporate items:			
Restructuring charge	(16,282)		
Intercompany rent charges	4,316	3,663	4,853
Consolidated EBIT	$ 4,408	$78,393	$67,363

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. Intangible assets generated from the Merger are primarily allocated to the Training and Education SBU. A reconciliation of segment assets to consolidated assets is as follows (in thousands):

YEAR ENDED AUGUST 31,	1999	1998	1997
Reportable segment assets	$397,595	$372,616	$392,706
All others' assets	44,158	55,593	53,977
Corporate assets	230,251	229,764	212,550
Intercompany accounts receivable	(48,701)	(60,696)	(87,046)
Consolidated assets	$623,303	$597,277	$572,187

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,	1999	1998	1997
Sales:			
United States	$504,388	$501,544	$409,345
Americas	15,844	16,587	10,137
Japan/Greater China	16,614	9,741	3,067
Europe/Middle East	8,084	8,265	6,071
Australasia	6,629	6,141	3,396
Others	3,364	4,334	1,256
	$554,923	$546,612	$433,272
Long-Lived Assets:			
United States	$400,989	$412,688	$397,910
Americas	2,087	946	1,196
Japan/Greater China	6,346	5,046	281
Europe/Middle East	558	591	635
Australasia	1,677	2,713	2,272
Others			150
	$411,657	$421,984	$402,444

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.

18. MERGER, ACQUISITIONS & DIVESTING ACTIVITIES

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 a ten-year life.

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.

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 next five years based upon the operating results of King Bear over that same period. No contingent payments have been paid or accrued based upon King Bear's fiscal 1999 operating results. 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 an estimated useful life of 15 years.

During fiscal 1997, Franklin and Covey merged to form Franklin Covey Co. In the Merger, the Company issued 5,030,894 shares of its common stock in exchange for all of the issued and outstanding capital stock of Covey. The Company's shares were valued at $22.16 per share, which was the average per share closing sales price of Franklin common stock on the New York Stock Exchange for the twenty consecutive trading days ended May 28, 1997. In connection with the Merger, the Company also acquired certain license rights for $27.0 million in cash.

The Merger was accounted for using the purchase method of accounting and generated approximately $175.6 million of intangible assets which are being amortized over estimated useful lives ranging from 12 to 40 years. In connection with recording the tax effects of the Merger, the Company recognized a net deferred tax liability totaling $24.0 million with a corresponding increase to goodwill which is being amortized over 30 years.

On March 1, 1997, the Company acquired Premier with operations located in Bellingham, Washington and Abbotsford, British Columbia. Premier manufactures and markets academic and personal planners for students from kindergarten to college throughout the U.S. and Canada. Premier's business is seasonal in nature and nearly all of its revenue is recognized in the Company's fourth fiscal quarter. The combined cash purchase price was $23.2 million with additional contingent payments to be made over the following three years based upon Premier's operating performance over that same time period. The Premier acquisition was accounted for using the purchase method of accounting and generated $27.6 million of intangible assets that are being amortized over an estimated useful life of 15 years. In connection with recording the tax effects of the Premier acquisition, the Company recognized a deferred tax liability totaling $5.4 million with a corresponding increase to goodwill which is being amortized over 15 years. As of August 31, 1999, the Company has made aggregate contingent payments of $21.5 million. Such payments were classified as goodwill and are being amortized over the remaining life of the original purchased goodwill. As of August 31, 1999, $10.9 million has been accrued for the final contingent payment.

Effective October 1, 1996, the Company acquired the net assets of TrueNorth Corporation ("Personal Coaching"). Personal Coaching, a Utah Corporation, is a provider of post-instructional personal coaching to corporations and individuals. Personal Coaching develops and delivers one-on-one personalized coaching which is designed to augment the effectiveness and duration of training curricula. The purchase price was $10.0 million in cash. In addition, contingent payments may be made over the next five years based on Personal Coaching's operating performance. The acquisition of Personal Coaching was accounted for using the purchase method of accounting and generated $9.3 million of intangible assets that are being amortized over an estimated useful life of 15 years. As of August 31, 1999, the Company has made aggregate contingent payments of $5.3 million. Such payments were classified as goodwill and are being amortized over the remaining life of the original purchased goodwill. As of August 31, 1999, $5.0 million has been accrued for the third contingent payment.

19. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The unaudited quarterly financial information included on pages 24-25 of the annual report to shareholders is an integral part of the consolidated financial statements.

20. SUBSEQUENT EVENTS

Subsequent to August 31, 1999, the Company was negotiating the sale of the commercial printing division of Publishers' Press, a wholly owned printing services subsidiary. The Company intends to retain printing operations dedicated to the production of its paper-based planners. The transaction is expected to close during fiscal 2000. Total sales price is contingent upon various factors, including normal due diligence procedures. The Company does not expect to incur a loss from the sale of these assets.

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 a ten-year life.

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, 1999 and 1998, respectively.

	High	Low
Fiscal Year Ended August 31, 1999:		
Fourth Quarter	$ 7 13/16	$ 7 11/16
Third Quarter	9 13/16	9 9/16
Second Quarter	12 15/16	11 7/8
First Quarter	18 3/4	18 3/8
Fiscal Year Ended August 31, 1998:		
Fourth Quarter	$ 21 1/8	$ 18 9/16
Third Quarter	25 3/4	19 1/4
Second Quarter	24 11/16	20 3/4
First Quarter	28 1/8	21 1/8

The Company did not pay or declare dividends on its common stock during the fiscal years ended August 31, 1998 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, 1999, the Company had 20,533,224 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 incorporated by reference to page 1 of the Company's 1999 Annual Report to Shareholders, which is included as exhibit 13 of this Report.

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

The information required by this Item is incorporated by reference to pages 17 through 27 of the Company's 1999 Annual Report to Shareholders, which is included as exhibit 13 of this Report.

Item 8. Financial Statements and Supplementary Data

The information required by this Item is incorporated by reference to pages 28 through 47 of the Company's 1999 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 28, 2000. 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 53.

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 28, 2000. The Company’s definitive Proxy Statement is included herein beginning on page 53.

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 28, 2000. The Company’s definitive Proxy Statement is included herein beginning on page 53.

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 28, 2000. The Company’s definitive Proxy Statement is included herein beginning on page 53.

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, 1999, are included herewith;

    Report of Arthur Andersen LLP, Independent Public Accountants, for the years ended August 31, 1999, 1998 and 1997

    Consolidated Balance Sheets at August 31, 1999 and 1998

    Consolidated Statements of Income for the years ended August 31, 1999, 1998 and 1997

    Consolidated Statements of Shareholders’ Equity for the years ended August 31, 1999, 1998 and 1997

    Consolidated Statements of Cash Flows for the years ended August 31, 1999, 1998 and 1997

    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	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 Purchasee 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	Merger Agreement – Covey Leadership Center, Inc.	(5)	
10.6	Notes Payable Purchase Agreement for $85.0 million of 6% unsecured senior notes payable, due May 2008	(6)	
10.7	Credit Agreement with Bank One, NA and Zions First National Bank, dated October 8, 1999		(9)
21	Subsidiaries of Registrant		(9)
23.1	Consent of Arthur Andersen LLP, Independent Public Accountants		(6)
27	Financial Data Schedule		(6)
99.1	Report of Arthur Andersen LLP, Independent Public Accountants, on Consolidated Financial Statement Schedule for the years ended August 31, 1999, 1998 and 1997		(6)
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.		(9)

(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 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 8-K dated June 3, 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) 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 22, 1999.

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 22, 1999
/s/ HYRUM W. SMITH Hyrum W. Smith	Vice Chairman of the Board	November 22, 1999
/s/ STEPHEN R. COVEY Stephen R. Covey	Vice Chairman of the Board	November 22, 1999
/s/ STEPHEN M. R. COVEY Stephen M. R. Covey	Executive Vice President and Director	November 22, 1999
/s/ JOHN L. THELER John L. Theler	Executive Vice President and Chief Financial Officer	November 22, 1999
/s/ J. SCOTT NIELSEN J. Scott Nielsen	Chief Accounting Officer	November 22, 1999
/s/ ROBERT H. DAINES Robert H. Daines	Director	November 22, 1999

/s/ E. J. "JAKE" GARN E. J. "Jake" Garn	Director	November 22, 1999
/s/ DENNIS G. HEINER Dennis G. Heiner	Director	November 22, 1999
/s/ BRIAN A. KRISAK Brian A. Krisak	Director	November 22, 1999
/s/ DONALD J. MCNAMARA Donald J. McNamara	Director	November 22, 1999
/s/ JOEL C. PETERSON Joel C. Peterson	Director	November 22, 1999
/s/ E. KAY STEPP E. Kay Stepp	Director	November 22, 1999
/s/ STEVEN C. WHEELWRIGHT Steven C. Wheelwright	Director	November 22, 1999

Proxy Statement

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 28, 2000 at 10:00 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 2002 and until their respective successors shall be duly elected and shall qualify;

(II) To consider and vote upon a proposal to amend the Franklin Covey 1992 Stock Incentive Plan to increase the maximum number of restricted shares, stock units and options that may be awarded thereunder from 5,000,000 to 6,000,000;

(III) 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, 2000; and

(IV) 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 22, 1999, 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

December 27, 1999

Important

Whether or not you expect to attend the Annual Meeting in person, to assure that your shares will be represented, please 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 if 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"), for use at the Annual Meeting of Shareholders of the Company to be held on Friday, January 28, 2000, 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 December 27, 1999.

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 22, 1999, 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 20,518,654 shares of Common 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.

Proxies

Shares of Common 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 proposed amendment to the Franklin 1992 Stock Incentive Plan to increase the maximum number of restricted shares, stock units and options that may be awarded thereunder from 5,000,000 to 6,000,000, FOR the ratification of the appointment of Arthur Andersen LLP as the independent auditor of the Company for the fiscal year ending August 31, 2000, 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 proposed amendment to the 1992 Franklin Stock Incentive Plan to increase the maximum number of restricted shares, stock units and options that may be awarded under the Plan and the approval of other matters, including the ratification of the appointment of Arthur Andersen as independent auditor for the Company, 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, four 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 2002 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.

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. Joel C. Peterson, E. Kay Stepp, Steven C. Wheelwright and Robert A. Whitman are currently serving terms which expire at the annual meeting of the Company's share-holders to be held following the end of fiscal year 2000. 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. Brief statements setting forth certain biographical information concerning each nominee and continuing director appear below.

Nominee for Election as Director

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

Hyrum W. Smith, 56, 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.* He is also a director of SkyWest, Inc. (NASDAQ), Children's Miracle Network, and on the Advisory Board for the University of Utah School of Business.

Stephen R. Covey, 67, 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 ("Covey") 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 teach-ing, 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.

Dennis G. Heiner, 56, 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 alumi-num 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.

Brian A. Krisak, 48, was appointed to the Board of Directors in June 1999. Mr. Krisak is a principal of the Hampstead Group L.L.C., a private 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 received his degree in Government and Law from Lafayette College in 1973 and his MBA in 1978 from Harvard University.

Directors Whose Terms of Office Continue

Certain information with respect to continuing directors is set forth below.

Joel C. Peterson, 52, has been a director of the Company since May 1997. Mr. Peterson served as a director of 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 private 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. Mr. Peterson's term as a director expires in 2000.

E. Kay Stepp, 54, 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 a principal and owner of Executive Solutions, a Portland-based consulting firm specializing in assisting senior executives and boards of directors. In addition, Ms. Stepp is Chairman of Gardenburger, Inc. (NASDAQ), a marketing and manufacturer of low-fat meatless frozen food products. Ms. Stepp is also currently a director of StanCorp Financial Group (NYSE), Planar Systems, Inc. (NASDAQ), and Working Assets, Inc. and is a founding director of the Bank of the Northwest. 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. Ms. Stepp's term as a director expires in 2000.

Steven C. Wheelwright, 56, has been a director of the Company since January 1999. Dr. Wheelwright is the Edsel Bryant Ford Professor of Business Administration at Harvard Business School. He also serves 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. Dr. Wheelwright is currently a director of Quantum Corporation (NYSE), TJ International (NASDAQ), Heartport (NASDAQ), and O.C. Tanner Company. Dr. Wheelwright's term as a director expires in 2000.

Robert A. Whitman, 46, 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. Since 1992, Mr. Whitman has been the President and Co-Chief Executive Officer of the Hampstead Group L.L.C., a private equity investment firm based in Dallas, Texas. In addition, Mr. Whitman serves as Chairman and Chief Executive Officer of Malibu Entertainment International. Mr. Whitman received his Bachelor of Arts degree in Finance from the University of Utah and his MBA from Harvard Business School. Mr. Whitman's term as a director expires in 2000.

Stephen M. R. Covey, 37, 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's term as a director expires in 2001.

Robert H. Daines, 65, 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 Citibank Universal Financial 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, 67, was elected to serve as a director of the Company in January 1993. Mr. Garn has been Vice Chairman of Huntsman Corporation since January 1993. 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 of 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, 46, was appointed to serve as a director in June 1999. Mr. McNamara is the founder of the Hampstead Group L.L.C., a private 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 Houlihan's Restaurant Group, Inc. and as chairman of the board of directors of FelCor Lodging Trust (NYSE). Mr. McNamara also currently serves as a director of Legend Airlines, a trustee of Saint Mark's School, a trustee of the Virginia Tech Foundation, and a member of the Real Estate Round Table and 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.

Current Director Whose Term of Office Expires on January 28, 2000

Certain information with respect to a director who will conclude service as of the date of the Annual Meeting is set forth below.

Jon H. Rowberry, 52, was employed by the Company as Senior Vice President, Treasurer and Chief Financial Officer in September 1995, was appointed as Executive Vice President in March 1996, Chief Operating Officer in September 1996, President in February 1997 and Chief Executive Officer in March 1998. Mr. Rowberry resigned as an officer of the Company in July 1999 but will continue to serve as a consultant to the Company. Mr. Rowberry also currently serves as a director for Hall Kinnion (NASDAQ). Mr. Rowberry is a Certified Public Accountant.

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, Stephen M. R. Covey, Robert Whitman and Hyrum Smith. 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 and Steven Wheelwright.

The Executive Committee met five times during the 1999 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 four times during the 1999 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 1999 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 1999 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 1999 fiscal year, there were five meetings held by the Board of Directors of the Company. All directors attended more than 75% of the board meetings. No director attended fewer than 75% 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; $1,000 for attending each committee meeting, with the exception of the committee chairperson who is paid $1,100; $667 for 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. On January 8, 1999, the Company financed the purchase of 1,450 shares of its Common Stock by each of its then outside directors (seven persons) for $17.25 per share, the market value on that date, through acceptance of a promissory note from each director in the amount of $25,013, secured by the stock purchased. The notes are payable in three annual installments with the Company having the right to offset payments due against the annual Board retainer. The Company has agreed to reduce the principal due with respect to each payment if earnings per share falls with a designated range of budgeted earnings per share.

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, 45, 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.

Don J. Johnson, 51, has been Executive Vice President - Manufacturing / Distribution 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.

John R. Harding, 40, has been Executive Vice President – Marketing and Solutions for Franklin Covey 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, 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).

Mikell Rigg McGuire, 34, 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.

Douglas Smith, 45, has been Executive Vice President of e-Commerce, Online and Electronic Products since October, 1999. Mr. Smith joined Franklin Covey 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.

John L. Theler, 52, has been Executive Vice President and Chief Financial Officer of the Company since January 1997. From 1992 to 1996, Mr. Theler was employed by Rubbermaid, a multinational company that markets and manufactures plastic and rubber consumer products, initially as Vice President of Finance and Controller of the Home Products Division and later as Vice President and Corporate Controller. From 1971 to 1992, Mr. Theler was employed by General Electric in progressive financial assignments.

D. Gordon Wilson, 47, has been an Executive Vice President of the Company since March 1996 responsible for retail store operation, catalog sales operations 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, Jon H. Rowberry, who served as the Company's Chief Executive Officer during fiscal 1999, Hyrum W. Smith, who served as the Company's Chairman of the Board of Directors during fiscal 1999 and the four other most highly paid executive officers during the fiscal year ended August 31, 1999 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(#)(4)	All Other Compensation(5)
Robert A. Whitman	1999	$ –	$ –	$14,000	$ –	–	$ –
Chairman and Chief	1998	–	–	18,000	–	–	–
Executive Officer	1997	–	–	17,580	–	–	–
John H. Rowberry	1999	304,615	143,352	–	–	30,000	4,800
Chief Executive Officer(3)	1998	270,832	163,098	–	–	70,000	5,156
	1997	211,456	350,000	–	90,000	80,000	5,100
Hyrum W. Smith	1999	293,846	112,706	–	–	30,000	4,800
Vice Chairman of	1998	281,238	175,560	–	–	–	5,445
the Board	1997	263,738	350,000	–	180,000	–	4,750
Stephen M. R. Covey	1999	181,731	90,000	–	–	25,000	4,800
Executive Vice President	1998	195,769	216,375	–	–	–	4,754
	1997	235,000	233,609	–	–	–	4,800
Val John Christensen	1999	163,323	90,000	–	–	25,000	4,771
Executive Vice President	1998	156,667	71,820	–	–	–	2,891
and Secretary	1997	155,400	135,000	–	72,000	35,000	4,750
D. Gordon Wilson	1999	162,462	90,000	–	–	16,000	4,431
Executive Vice President	1998	156,667	71,820	–	–	21,000	4,102
	1997	150,000	90,000	–	36,000	24,000	5,100
John L. Theler	1999	162,462	90,000	–	–	30,000	4,616
Executive Vice President	1998	156,667	71,820	–	–	45,000	2,133
and Chief Financial Officer	1997	112,500	70,000	–	18,000	30,000	–

(1) Includes compensation paid to Mr. Whitman as a member of the Board of Directors.

(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 receipt of any dividends paid. 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:

Number Name	Value at Of Shares	August 31, 1999
Hyrum W. Smith	19,000	$147,250
Jon H. Rowberry	9,000	69,750
Val John Christensen	6,500	50,375
D. Gordon Wilson	3,000	23,250
John L. Theler	1,000	7,750

(3) Mr. Rowberry served as Chief Executive Officer until July 1999 when Mr. Whitman was appointed as Chief Executive Officer.

(4) 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, 1999, the Company had not granted any stock appreciation rights.

(5) 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

The following table sets forth individual grants of stock options made by the Company during the fiscal year ended August 31, 1999 to the persons named in the preceding Summary Compensation Table. As of August 31, 1999, the Company had not granted any stock appreciation rights to the executive officers named below.

Name	Options Granted	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (in dollars) 5%	10%
Robert A. Whitman	_	_	$ _	_	$ _	$ _
Hyrum W. Smith	30,000	1.7%	9.69	4/30/2009	182,773	463,181
Jon H. Rowberry	30,000	1.7	9.69	4/30/2009	182,773	463,181
Stephen M. R. Covey	25,000	1.4	9.69	4/30/2009	152,310	385,985
Val John Christensen	25,000	1.4	9.69	4/30/2009	152,310	385,985
	65,300	3.6	7.00	7/28/2009	287,468	728,500
D. Gordon Wilson	15,000	0.8	9.69	4/30/2009	91,386	231,591
	1,000	0.0	17.69	12/11/2008	11,124	28,189
John L. Theler	20,000	1.1	9.69	4/30/2009	121,848	308,788
	10,000	0.6	17.69	12/11/2008	111,235	281,893

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, 1999, upon the exercise of stock options, the value realized upon such exercise, the number of unexercised stock options held on August 31, 1999, 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, 1999, the Company had not granted any stock appreciation rights to any of the executive officers named below.

			Number of Unexercised Options at August 31, 1999		Value of Unexercised In-the-Money Options at August 31, 1999(2)	
Name	Number of Shares Acquired on Exercise	Value Realized on Exercise(1)	Exercisable	Unexercisable	Unexercisable	Unexercisable
Robert A. Whitman	_	$ _	_	_	$ _	$ _
Hyrum W. Smith	_	_	105,000	45,000	_	_
Jon H. Rowberry	_	_	125,000	145,000	_	_
Stephen M. R. Covey	_	_	_	25,000	_	_
Val John Christensen	50,000	825,750	167,500	117,800	_	48,975
D. Gordon Wilson	_	_	37,250	48,750	_	_
John L. Theler	_	_	26,250	78,750	_	_

(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, 1999. The last sale price of the Common Stock on August 31, 1999, as reported by the New York Stock Exchange, was $7.75 per share.

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, Dennis Heiner, Brian Krisak and Steven Wheelwright. The Committee met four times during fiscal year 1999.

Executive Compensation Philosophy. In 1997, 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 is 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 option issuance aligns executive and shareholder interests in building Company value and will be used as a reward to executives for increasing Company value.

Key Executive Compensation. Key Executive Compensation consists of annual salaries and additional compensation in the form of quarterly cash performance-based bonuses, 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 1999 reflecting the Company's overall performance.

Chairman and President and Chief Executive Officer's Compensation. Mr. Smith's and Mr. Rowberry's compensation for 1999 was determined pursuant to the principles described above. The Committee concluded that the annual performance bonus for 1999 paid to Mr. Smith and Mr. Rowberry fairly and adequately compensates them based on the overall performance of the Company. Mr. Whitman does not receive cash compensation as current Chairman of the Board of Directors and Chief Executive Officer.

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, 1999, executive officers held incentive stock options to purchase an aggregate of 987,250 shares of Common Stock granted under the direction of the Committee pursuant to the Incentive Plan since its inception in 1992. Of those options, 430,263 are currently exercisable.

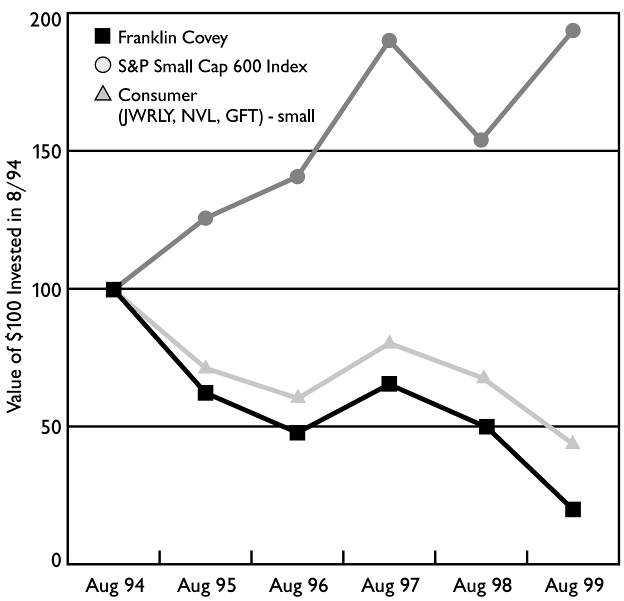
Other Compensation Plans. The Company has a number of other broad-based employee benefit plans in which executive officers participate on the same terms as other employees meeting the eligibility requirements, subject to any legal limitations on amounts that may be contributed to or benefits payable 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
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, 1999, 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, 1999, with respect to the beneficial ownership of shares of the Common Stock by each person known by the Company to be the beneficial owner of more than 5% of the Common 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 20,533,224 shares of Common Stock and 768,750 shares of the Series A Preferred Stock outstanding as of November 1, 1999:

	Beneficial Ownership as of November 1, 1999	
	Number of Shares	Percentage of Class
Common Stock:		
Yacktman Asset Management 303 West Madison Chicago, Illinois 60606	2,154,045	10.5%
Stephen R. Covey c/o Franklin Covey Co. 2200 West Parkway Boulevard Salt Lake City, Utah 84119-2331	1,927,384	9.4
Dennis R. Webb(1)(2) c/o Franklin Covey Co. 2200 West Parkway Boulevard Salt Lake City, Utah 84119-2331	1,275,712	6.2
Dimensional Fund Advisors, Inc. 1299 Ocean Avenue Santa Monica, California 90401	1,242,400	6.1
Hyrum W. Smith(1)(2)(3)	435,923	2.2
Stephen M. R. Covey	305,878	1.5
Val John Christensen(3)	194,280	*
Jon H. Rowberry	127,462	*
Joel C. Peterson	116,056	*
D. Gordon Wilson(3)	58,052	*
John L. Theler(3)	50,616	*
Steven C. Wheelwright	16,450	*

	Number of Shares	Percentage of Class
Robert H. Daines	10,005	*
E. J. “Jake” Garn	1,450	*
Dennis G. Heiner	1,450	*
Kay E. Stepp	1,450	*
Robert A. Whitman	1,450	*
Brian A. Krisak	_	*
Donald J. McNamara	_	*
All directors and executive officers as a group (23 persons)(1)(3)	3,401,518	16.1%
Series A Preferred Stock (5)		
Knowledge Capital Investment Company. 2200 Ross Avenue, Suite 42-W Dallas, Texas 75201	768,750	100.0%

* Less than 1%.

(1) 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, 48,000 shares, and Dennis R. Webb, 19,500 shares.

(2) 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, Webb and Covey 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.

(3) The share amounts indicated include shares subject to options currently exercisable held by the following persons in the following amounts: Hyrum W. Smith, 120,000 shares; Val John Christensen, 186,250 shares; D. Gordon Wilson, 53,750 shares; John L. Theler, 47,500 shares; and all executive officers and directors as a group, 548,950 shares.

(4) 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.

(5) The Series A Preferred Stock is convertible into Common Stock at a rate of 7.14 shares of Common Stock for one share of Series A Preferred Stock. If Knowledge Capital Investment Company were to convert the shares of Series A Preferred Stock into shares of Common Stock, Knowledge Capital Investment Company would be the beneficial owner of 5,491,071 shares of Common Stock. Messrs. Whitman, Krisak and McNamara, each of whom is a director of the Company and, in the case of Mr. Whitman, an executive officer of the Company, are principals of the private investment firm that sponsors Knowledge Capital and therefore may be deemed the beneficial owner of 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 Series A Preferred Stock and of the Common Stock into which the Series A Preferred Stock may be converted.

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% 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% 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 the following: a Form 4 for Hyrum W. Smith, a Director, to report the sale of 9,000 shares and a Form 5 to report an option grant for 30,000 shares were due on November 10, 1998 and October 15, 1999, respectively, and were filed on January 11, 1999 and November 19, 1999, respectively; a Form 4 for Thomas H. Lenagh, a former Director, reporting the purchase of 9,000 shares was due on November 10, 1998 and filed on January 11, 1999; a Form 4 for John H. Graves, formerly a corporate officer, to report the sale of 756 shares was due on February 15, 1999 and filed on May 10, 1999; a Form 5 for Mikell G. Rigg-McGuire, an executive officer, reporting an option grant for 20,000 shares was due on October 15, 1999 and filed on November 19, 1999; a Form 5 for Jon H. Rowberry, a Director, reporting an option grant for 30,000 shares was due on October 15, 1999 and filed on November 19, 1999; a Form 5 for D. Gordon Wilson, an executive officer, reporting an option grant for 15,000 shares was due on October 15, 1999 and filed on November 19, 1999; a Form 5 for Stephen M.R. Covey, a Director and executive officer, reporting an option grant for 25,000 shares was due on October 15, 1999 and filed on November 19, 1999; a Form 5 for Don J. Johnson, an executive officer, to report an option grant for 20,000 shares due October 15, 1999 and a Form 4 to report the purchase of 1,000 shares by Mr. Johnson, due June 10, 1999, were reported on Forms 4 filed on November 10, 1999 and June 11, 1999, respectively; Forms 4 for Joel C. Petersen, a Director, reporting the purchase of 2,513 shares, 6,950 shares and 100,000 shares were due on September 10, 1998, March 10, 1999 and July 10, 1999, respectively, and were filed on October 15, 1998 (Form 5), March 15, 1999 and August 2, 1999, respectively; Forms 5 for Val John Christensen, an executive officer, reporting option grants for 25,000 and 65,300 shares were due on October 15, 1999 and were filed on November 12, 1999 and November 19, 1999, respectively; Forms 3 for Donald J. McNamara and Brian A. Krisak reporting the appointment of Messrs. McNamara and Krisak, as Directors, were due on July 5, 1999 and were filed on November 15, 1999; Forms 4 for Knowledge Capital Investment Group, a 10% owner, reporting the purchase of 658,200 shares, the acquisition of 18,750 shares of Series A Convertible Preferred Stock (convertible to 133,929 shares of Common Stock), and the purchase of 78,000 shares were due on September 10, 1999, October 12, 1999 and November 10, 1999, and were filed on September 15, 1999 and November 15, 1999, respectively.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In connection with the Merger with Covey, Dr. 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 80% of the proceeds from personal speaking engagements, which resulted in a payment of $3.0 million to Dr. Covey for the fiscal year ending August 31, 1999. Also in connection with the Merger, the Company entered 12-year leases 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% and 11% interest, respectively. Lease rentals paid in fiscal 1999 were $2,074,390. 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.

Effective July 6, 1999, Jon H. Rowberry resigned as President and Chief Executive Officer of the Company but continued employment, under an agreement dated September 24, 1999, as a management and special project consultant for a six-month period commencing July 7, 1999 and for such longer periods as the Company and Mr. Rowberry mutually agree upon. During the six months and any extension thereof, Mr. Rowberry will be paid $39,583 per month and participate in all employee benefit plans. If Mr. Rowberry's employment terminates prior to January 6, 2002 or in the event of his disability or death, the balance of the monthly salary payments will be paid as severance (in a lump sum in the case of death or disability; otherwise, in regular payroll payments). All Incentive Stock Options held by Mr. Rowberry were cancelled effective September 24, 1999. A restricted stock award of 4,000 shares held by Mr. Rowberry vested on November 10, 1999 in accordance with its terms. A separate unvested restricted stock award of 5,000 shares was cancelled. The Company also agreed to sell to Mr. Rowberry 121,250 shares of the Company's Common Stock at the closing sale price on September 24, 1999 and to loan to Mr. Rowberry the purchase price of $911,250 evidenced by a promissory note bearing interest at 10% per annum and secured by the stock purchased. The promissory note is due upon the earlier of the sale of the stock purchased or on September 24, 2003. The Company retained a right of first refusal to purchase any shares of its Common Stock proposed to be sold by Mr. Rowberry, at the market price.

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 all 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% of the 750,000 shares of Series A Preferred Stock (or Common Stock equivalents) originally purchased. The Company has paid $100,000 to Hampstead Interests, LP since the beginning of the fiscal year ended August 31, 1999, pursuant to the Monitoring Agreement.

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 AMEND THE FRANKLIN COVEY 1992 STOCK INCENTIVE PLAN

General

The Franklin 1992 Stock Incentive Plan (the "Incentive Plan") was adopted by the Board of Directors on March 30, 1992 and approved by the Company's shareholders on March 31, 1992. The Incentive Plan was amended on October 5, 1992 to reflect the change of the Company's name to Franklin Quest Co. On December 6, 1993, the Incentive Plan was further amended to increase the maximum number of restricted shares, stock units and options that may be awarded thereunder from 1,000,000 to 5,000,000. The Incentive Plan was amended on July 14, 1997 to reflect the change of the Company's name to Franklin Covey Co. On March 26, 1999, the Board of Directors further amended the Incentive Plan, subject to shareholder approval to increase the maximum number of restricted shares, stock units and options that may be awarded thereunder from 5,000,000 to 6,000,000. The following description of the Incentive Plan does not purport to be complete and is qualified in its entirety by reference to the full text of the Incentive Plan.

Description of the Incentive Plan

Purpose. The purpose of the Incentive Plan is to promote the long-term success of the Company and the creation of incremental shareholder value by (a) encouraging key employees of the company and its subsidiaries to focus on critical long-range objectives, (b) encouraging the attraction and retention of key employees with exceptional qualifications, and (c) linking the interest of key employees of the Company directly to shareholder interests through increased stock ownership.

Administration. The Incentive Plan is administered by a committee (the "Committee") of the Board of Directors consisting of a sufficient number of disinterested members of the Board of Directors so as to qualify the Committee to administer the Incentive Plan as contemplated by Rule 16b-3 promulgated pursuant to the Exchange Act. The Committee is presently composed of the Compensation Committee of the Board of Directors. The Committee shall select the employees who are to receive awards under the Incentive Plan, determine the amount, vesting requirements and other conditions of such awards, interpret the Incentive Plan, execute agreements setting forth the terms of such awards (each, a "Stock Award Agreement") and make all other decisions relating to the operation of the Incentive Plan.

Duration of the Incentive Plan. The Incentive Plan became effective on March 31, 1992 and will remain in effect until terminated by the Board of Directors, except that no Incentive Option (defined below) may be granted under the Incentive Plan after March 30, 2002. Notwithstanding the termination of the Incentive Plan, the Incentive Plan shall continue in effect after such termination for purposes of the administration of any Incentive Plan award granted prior to the effective date of the termination of the Incentive Plan.

Shares Subject to the Incentive Plan. The Incentive Plan provides for the issuance of Incentive Stock Options (the "Incentive Options"), as that term is defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), nonqualified stock options which are not governed by the provisions of Section 422 of the Code ("Nonqualified Options") for shares of Common Stock (the Incentive Options and the Non-qualified Options may be referred to collectively as the "Options"), certain corresponding stock appreciation rights ("SARs"), restricted shares of Common Stock ("Restricted Shares") and Stock Units, described below, or any combination thereof (the various awards are referred to collectively as the "Awards"). The maximum number of Options, Restricted Shares and Stock Units that may be awarded under the Incentive Plan is currently 7,000,000, subject, however, to approval of the proposed amendment to the Incentive Plan. If any Options, Restricted Shares or Stock Units are forfeited or if any Option terminates for any reason before being exercised, then such Options, Restricted Shares or Stock Units shall again become available for Awards under the Plan. Notwithstanding the above, if any Options are surrendered because corresponding SARs are exercised, such Options shall not become available again for awards under the Incentive Plan. Any Common Stock issued pursuant to the Incentive Plan may be authorized but unissued shares or treasury shares. Shares of Common Stock to be issued upon the exercise of Awards granted pursuant to the Incentive Plan have been registered with the Commission under a Registration Statement on Form S-8, on file with the Commission. The last sale price of the Common Stock on August 31, 1999, as reported by the New York Stock Exchange, was $7.75 per share.

In the event of a subdivision of the outstanding shares of Common Stock, a declaration of a dividend payable in Common Stock, a declaration of a dividend payable in a form other than Common Stock in an amount that has a material effect on the price of the shares of Common Stock, a combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise) into a lesser number of shares of Common Stock, a recapitalization or similar occurrence (the occurrence of each of which may be referred to as a "Capital Change"), the Committee shall make appropriate adjustments in the number of Options, Restricted Shares and Stock Units available for future awards under the Incentive Plan.

Eligibility. Awards may be granted only to employees of the Company and its subsidiaries that the Committee, in its sole discretion, shall determine to be key employees (the "Key Employees"), including, without limitation, members of the Board of Directors or officers of the Company who are determined by the Committee to be Key Employees. Members of the Committee are not eligible to participate in the Incentive Plan.

Options. The Committee, in its sole discretion, may grant both Incentive Options and Nonqualified Options from time to time. The Committee has complete authority, subject to the terms of the Incentive Plan, to determine the persons to whom and the time or times at which grants of Options will be made. The Incentive Plan provides that the exercise price of Options, restrictions upon the exercise of Options and restrictions on the transferability of shares issued upon the exercise of Options, shall be determined by the Committee in its sole discretion, except that (i) the exercise price of any Incentive Option shall not be less than the fair market value of a share of Common Stock as of the date of the grant, (ii) in the case of an Incentive Option granted to any individual who, at the time that the Incentive Option is granted, owns more than ten percent of the total combined voting power of all classes of stock of the Company or any of its subsidiaries (a "Restricted Shareholder"), the exercise price of such Incentive Option shall not be less than 110% of the fair market value, determined pursuant to the Incentive Plan, of a share of Common Stock as of the date on which the Option is granted, and (iii) the exercise price of any Nonqualified Option shall be not less than the par value of the Common Stock. The Committee, in its sole discretion, shall determine the time or times when each Option vests and becomes exercisable. The term of an Incentive Option, however, may not be more than ten years from the date of grant and the term of any Incentive Option granted to a Restricted Shareholder may not be more than five years from the date of grant. During the lifetime of the employee receiving the Option (the "Optionee"), the Option shall be exercisable only by the Optionee and shall not be assignable or transferable. Each Option shall become exercisable in such installments, at such time or times, and is subject to such conditions, as the Committee, in its discretion, may determine at or before the time the Option is granted. The Committee may provide for the accelerated exercisability of an Option in the event of the death, disability or retirement of the Optionee and may provide for expiration of the Option prior to the end of its term in the event of the termination of the Optionee's employment.

Payment. The exercise price of Options granted under the Incentive Plan shall be payable at the time of exercise in cash or, in the discretion of the Committee, in shares of Common Stock or other forms approved by the Committee. In the case of an Incentive Option, payment shall be made only pursuant to the express provisions with regard to exercise that the Committee determines to include in the applicable Stock Award Agreement. Any payment method approved by the Committee must be consistent with applicable law, regulations and rules as well as the terms and conditions of the Plan.

Stock Appreciation Rights. In connection with the grant of any Option, the Committee, in its sole discretion, may also grant an SAR, which shall relate to a specific Option granted to the Optionee. Such SAR shall entitle the Optionee to surrender to the Company, unexercised, all or any part of that portion of the Option which then is exercisable and to receive from the Company an amount equal to the difference between the aggregate exercise price of the share of Common Stock subject to the Option and the fair market value, as determined under the Incentive Plan, of such share on the date of such exercise. Payment by the Company of any amount owing pursuant to the exercise of an SAR may be made in shares of Common Stock, cash, or any combination of cash and shares, as determined in the sole discretion of the Committee. The determination of the Committee to include an SAR in an Incentive Option may be made only at the time of the grant of the Incentive Option. The Committee may include an SAR in a Nonqualified Option at the time of the grant, and any time thereafter until six months before the expiration of the Nonqualified Option.

An SAR may be exercised only to the extent the Option to which it is applicable is exercisable and may not be exercised unless both the SAR and the related Option have been outstanding for more than six months. If, on the date an Option expires, the exercise price of the Option is less than the fair market value of the shares of Common Stock on such date, then any SARs included in such Option shall automatically be deemed to be exercised as of such date with respect to any portion of such Option that has not been exercised or surrendered.

Restricted Shares. The Committee may grant shares of Common Stock which are subject to vesting conditions as an Award under the Incentive Plan (the "Restricted Shares"). The award of Restricted Shares may be made at any time and for any year of the Incentive Plan. The Restricted Shares shall become vested, in full or in installments, upon satisfaction of the conditions specified in the Stock Award Agreement. The Committee shall select the vesting conditions, which may be based upon the recipient's service and/or performance, the Company's performance, or such other criteria as the Committee may adopt. The Stock Award Agreement may also provide for accelerated vesting in the event of the recipient's death, disability or retirement. A recipient of Restricted Shares, as a condition to the grant of such Restricted Shares, shall be required to pay the Company, in cash, an amount equal to the par value of the Restricted Shares. The holders of Restricted Shares shall have the same voting, dividend and other rights as the Company's other shareholders.

Stock Units. A Stock Unit is an unfunded and unsecured bookkeeping entry representing the equivalent of one share of Common Stock which is subject to certain vesting conditions (a "Stock Unit"). Holders of Stock Units have no voting rights or other rights of a shareholder, but are entitled to receive "Dividend Equivalents" in an amount equal to the amount of cash dividends paid on the number of shares of Common Stock represented by the Stock Units while the Stock Units are outstanding. Stock Units and corresponding Dividend Equivalents will be settled at a time determined by the Committee and may be paid, in the discretion of the Committee, in the form of cash, shares of Common Stock, or a combination thereof.

Stock Units may be awarded in combination with Restricted Shares or Nonqualified Options, and the Committee may provide that the Stock Units will be forfeited in the event that the related Nonqualified Options are exercised. No cash consideration shall be required for an award of a Stock Unit. The Committee may grant Stock Units at anytime during the term of the Incentive Plan. The Committee shall, in its sole discretion, select the vesting conditions for each award of a Stock Unit. The vesting conditions may be based upon the recipient's service or performance, the Company's performance, or such other criteria that the Committee may adopt.

Amendments to the Incentive Plan. The Board of Directors may, at any time and for any reason, amend or terminate the Incentive Plan. Any amendment to the Incentive Plan, however, shall be subject to the approval of the Company's shareholders to the extent required by applicable laws, regulations or rules. No amendment, suspension or termination of the Incentive Plan shall affect an Award granted on or prior to the effective date of such amendment.

General Provisions. Neither the Incentive Plan nor the grant of any Award thereunder shall be deemed to give any individual the right to remain employed by the Company or any of its subsidiaries. The Incentive Plan shall not inhibit the Company's ability to terminate or modify the terms of the employment of any employee at anytime, with or without cause. Participants in the Incentive Plan shall have no rights with respect to dividends, voting or any other privileges accorded to the Company's shareholders prior to the issuance of stock certificates for shares of Common Stock. Recipients of Options under the Incentive Plan shall have no obligation to exercise such Options. Participants in the Incentive Plan shall not have any rights or interest under the Plan in any Option or shares of the Company's Common Stock prior to the grant of an Option, Restricted Share or Stock Unit to such participant.

Incentive Plan Benefits

The Company cannot now determine the exact number of Incentive Options, Non-qualified options, SARs, Restricted Shares or Stock Units to be granted in the future to the persons named under "Executive Compensation - Summary Compensation Table," to all current executive officers as a group, or to all employees (including executive officers). See "Executive Compensation - Option/SAR Grants in Last Fiscal Year" for the number of options granted under the Incentive Plan to the persons named in the Summary Compensation Table for the year ended August 31, 1999. During the year ended August 31, 1999, options to purchase 391,300 shares of Common Stock were granted to all executive officers as a group and options to purchase 1,414,000 shares were granted to all employees, including all officers who are not executive officers, as a group.

Federal Income Tax Consequences

The following tax discussion is a brief summary of current material U.S. federal income tax law applicable to the Incentive Plan. The discussion is intended solely for general information and omits certain information which does not apply generally to all participants in the Incentive Plan.

This discussion is based on currently existing provisions of the Code, existing and proposed Treasury regulations promulgated thereunder and current administrative rulings and court decisions, all of which are subject to change. Any such change, which may or may not be retroactive, could alter the tax consequences of any participant under the Incentive Plan. In addition, the following discussion does not address foreign, state, or local tax laws, or the tax consequences relating to participants who are nonresident alien individuals. Accordingly, participants are urged to consult their own tax advisor with respect to the specific tax consequences to them relating to the Incentive Plan.

Initial Grant of Options and Stock Appreciation Rights. A recipient of Options, whether Nonqualified Options or Incentive Options, or SARs incurs no income tax liability, and the Company obtains no deduction, from the grant of Options or SARs.

Incentive Options. The holder of an Incentive Option will not be subject to federal income tax upon the exercise of the Incentive Option, and the Company will not be entitled to a tax deduction by reason of such exercise, provided that the holder is still employed by the Company (or terminated employment no longer than three months before the exercise date). Additional exceptions to this exercise timing requirement apply upon the death or disability of the Optionee. A sale of the shares of Common Stock received upon the exercise of an Incentive Option which occurs both more than one year after the exercise of the Incentive Option and more than two years after the grant of the Incentive Option will result in the realization of long-term capital gain or loss in the amount of the difference between the amount realized on the sale and the exercise price for such shares. Generally, upon a sale or disposition of the shares prior to the foregoing holding requirements (referred to as a "disqualifying disposition"), the Optionee will recognize ordinary compensation income, and the Company will receive a corresponding deduction, equal to the lesser of (i) the excess of the fair market value of the shares on the date of transfer to the Optionee over the exercise price, or (ii) the excess of the amount realized on the disposition over the exercise price.

The excess of the fair market value of the shares of Common Stock at the time of the exercise of an Incentive Stock Option over the Option price will increase the Optionee's alternative minimum taxable income subject to the alternative minimum tax, unless a subsequent disqualifying disposition occurs in the same taxable year of the Optionee in which the Common Stock was purchased.

Nonqualified Options. Upon the exercise of a Nonqualified Option, the amount by which the fair market value of the shares of Common Stock on the date of exercise exceeds the exercise price will be taxed to the Optionee as ordinary compensation income. The Company will generally be entitled to a deduction in the same amount, provided it satisfies certain IRS reporting requirements relating to the terms of the option. In general, the Optionee's tax basis in the shares acquired by exercising a Nonqualified Option is equal to the fair market value of such shares on the date of exercise. Upon a subsequent sale of any such shares in a taxable transaction, the Optionee will realize capital gain or loss in an amount equal to the difference between his or her basis in the shares and the sale price.

Restricted Shares. The recipient of an award of Restricted Shares will be required to recognize income in the first year that (i) the Restricted Shares become transferable by the recipient, or (ii) the Restricted Shares are not subject to a substantial risk of forfeiture. The various vesting conditions imposed upon the Restricted Shares in the applicable Stock Award Agreement will determine if the Restricted Shares are subject to a substantial risk of forfeiture. The amount of income that must be recognized in connection with a grant of Restricted Shares will be equal to the difference between the fair market value of the Restricted Shares in the year that income is recognized and value paid by the recipient for the Restricted Shares. The income recognized will be taxed as ordinary income. The Company will generally be entitled to a deduction in the same amount provided it satisfies certain IRS reporting requirements. The tax basis in the restricted Shares will be the value paid by the recipient plus any income recognized by the recipient.

A recipient may elect to recognize income in the year he or she receives an award of Restricted Shares even if the Restricted Shares are non-transferable and subject to a substantial risk of forfeiture. The recipient will recognize as income the difference between the fair market value of the Restricted Shares and the value of such Restricted Shares on the date of the award. The tax basis in the Restricted Shares will be the value paid by the recipient plus any income recognized by the recipient. By making such election, the recipient can defer recognizing as income the increase in value of the Restricted Shares during such period until the Restricted Shares are sold or transferred. Upon the subsequent sale of any Restricted Shares in a taxable transaction, the recipient will realize capital gain or loss (long-term or short-term, depending on whether the Restricted Share were held for more than twelve months before the sale) in an amount equal to the difference between his or her basis in the Restricted Shares and the sale price.

Stock Units and Stock Appreciation Rights. Upon the exercise of an SAR and/or the payment of Stock Units and corresponding Dividend Equivalents, a participant under the Incentive Plan will recognize ordinary compensation income in the amount of both the cash and the fair market value of the shares of Common Stock received upon the exercise of the SAR or the payment of the Stock Unit and Dividend Equivalent, and generally the Company will be entitled to a corresponding deduction. In the event the participant receives shares of Common Stock upon the exercise of the SAR or the payment of the Stock Unit or Dividend Equivalent, any shares so acquired will have a tax basis equal to their fair market value on the date of such exercise or payment, and the holding period of the shares will commence on the day following that date. Upon a subsequent sales of such shares, the participant will recognize capital gain or loss (long-term or short-term, depending on whether the shares were held for more than twelve months before the sale) in an amount equal to the difference between his or her basis in the shares and the sale price.

Withholding Tax Obligations. To the extent required by applicable federal, state, local or foreign law, the recipient of any payment or distribution under the Incentive Plan will make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise by reason of such payment or distribution. The Company will not be required to make such payment or distribution until such obligations are satisfied. The Committee may permit an Incentive Plan participant who exercises an Nonqualified Option to satisfy all or part of his or her withholding tax obligation by having the Company withhold a portion of the Common Stock that otherwise would be issued to the participant under such Nonqualified Option.

Proposed Amendment

On March 26, 1999, the Board of Directors amended the Incentive Plan (the “Amendment”) to increase the aggregate number of shares reserved for Awards of Restricted Shares, Stock Units and Options from 5,000,000 to 6,000,000, subject to shareholder approval. As of August 31, 1999, there were outstanding Awards relating to an aggregate of 5,184,565 shares of Common Stock. Any Awards under the Incentive Plan in excess of 5,000,000 shares are subject to shareholder approval of the Amendment. Following a review of the Awards made under the Incentive Plan to date and additional Awards which may be made under the Incentive Plan, the Board is recommending that shareholders of the Company vote for approval of the Amendment. The Board believes that the relatively small increase in the number of shares available for Awards will be adequate for the foreseeable future, as the Company intends to implement broad-based equity incentive programs for officers and key employees involving issued and outstanding shares of the Company’s Common Stock rather than issuance of new shares.

Approval of the Amendment requires that the number of votes cast in favor of the Amendment at the Annual Meeting exceed the number of votes cast in opposition to the Amendment. Approval of the Amendment will not result directly in the grant of any Awards to the executive officers, directors or employees of the Company. Approval will, however, increase the number of Restricted Shares, Stock Units and Options which may be granted to Key Employees, including those executive officers and certain directors of the Company who are eligible to participate in the Incentive Plan. If the Amendment is not approved by the shareholders of the Company, the Incentive Plan will continue in effect as amended on July 14, 1997.

Certain Interests of Directors

In considering the recommendation of the Board of Directors with respect to the Amendment, shareholders should be aware that the members of the Board of Directors have certain interests which may present them with conflicts of interest in connection with such proposal. As discussed, above, all Key Employees, including all current directors who are employees of the Company except those who may be serving as members of the Committee, are eligible to participate in the Incentive Plan.

The Board of Directors recognizes that adoption of the proposed amendment to the Incentive Plan may benefit individual directors of the Company and their successors, but it believes that approval of the Amendment will strengthen the Company's ability to continue to attract, motivate and retain qualified employees, officers and directors. Furthermore, the Board of Directors believes that approval of the Amendment will advance the interests of the Company and its shareholders by encouraging Key Employees to make significant contributions to the long-term success of the Company. The Board of Directors believes that the Amendment is in the best interests of the Company and its shareholders, and therefore unanimously recommends a vote FOR the proposal to approve the Amendment. In considering the foregoing recommendation of the Board of Directors, shareholders should be aware that the current members of the Board of Directors own, in the aggregate, approximately 16% of the share of the Common Stock outstanding as of November 1, 1999. See "Principal Holders of Voting Securities."

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, 2000, 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.

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 2001 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, 2000.

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 1999 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.

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Franklin Covey International Locations

Australia

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GPO Box 2769
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Australia
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Suite 4602, Level 46

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N1R 8L2 Canada
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(800) 265-6655
(519) 740-8833 fax

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Chiyoda-Ku, Tokyo
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81-3-3264-7402 fax

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San Pedro Garza Garcia
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(52-8) 363-5314 fax

Mexico City Office
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United Kingdom / Europe
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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

Mikell Rigg McGuire
Executive Vice President, International

Douglas G. Smith
Executive Vice President, e-Commerce, Online and Electronic Products

John L. Theler
Executive Vice President and Chief Financial Officer

D. Gordon Wilson
Executive Vice President, Product Sales

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
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 10:00 a.m. on Friday, January 28, 2000, 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
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 22, 1999.

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.