2002

Annual Report
Proxy Statement

Executive Team

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

Robert William Bennett Jr.
President,
Organizational Strategic Business Unit

Val John Christensen
Executive Vice President,
Secretary and General Counsel

Mark A. Korros
President,
Consumer Strategic Business Unit

J. Scott Nielsen
Senior Vice President,
Finance, Treasurer

Stephen D. Young
Senior Vice President,
Chief Financial Officer

Board of Directors

Robert A. Whitman
Chairman of the Board of Directors

Hyrum W. Smith
Co-Vice Chairman of the Board of Directors

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

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

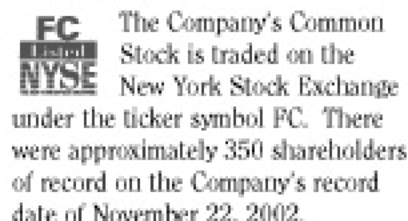
Shareholder Information

Annual Meeting
We invite shareholders to attend our Annual Meeting of Shareholders at 8:30 a.m. on Friday, January 24, 2003, at the Hyrum W. Smith Auditorium on the Franklin Covey Co. headquarters campus, 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331.

Independent Auditors
KPMG LLP
15 West South Temple, Suite 1500
Salt Lake City, Utah 84101-9800

Counsel
Parr Waddoups Brown Gee & Loveless
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, 2002.

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.

PURPOSE

To help individuals and organizations become measurably more effective.

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Financial Highlights

AUGUST 31,	2002	2001	2000	1999	1998
In thousands, except share data					
Income Statement Data					
Sales	$332,998	$439,781	$522,630	$509,351	$495,230
Net Income (Loss) from Continuing Operations	(96,466)	(13,196)	(7,472)	(14,689)	39,622
Net Income (Loss) Attributable to Common Shareholders	(109,266)	(19,236)	(12,414)	(10,647)	40,058
Diluted Earnings (Loss) Per Share	(5.49)	(0.95)	(0.61)	(0.51)	1.62
Balance Sheet Data					
Total Assets	$304,738	$536,480	$592,479	$623,303	$597,277
Long-Term Obligations of Continuing Operations	3,303	92,858	65,139	5,602	126,075
Shareholders' Equity	234,555	309,882	374,053	378,434	341,654

Common Stock Price Range	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Fiscal 2002				
High	$ 7.00	$ 6.30	$ 3.70	$ 3.10
Low	2.04	3.10	2.18	1.95
Close (at quarter end)	6.20	3.10	3.00	2.12
Fiscal 2001				
High	$ 9.75	$ 9.00	$ 8.75	$ 7.40
Low	6.44	6.81	6.16	4.36
Close (at quarter end)	8.00	8.45	7.04	4.49

To our Shareholders:

Fiscal 2002 was a difficult year, made more difficult by a weak economy, a significant decline in sales of PALMs and other handheld organizers and the events of September 11th. Despite these challenges, we made substantial progress on the overarching goals that we outlined in last year's Shareholder Letter. Specifically, our three primary objectives for the year were to:

1) **Exit non-core businesses and transform our capital structure.** In December we sold Premier Agendas and paid off substantially all of our long-term debt. This sale also generated additional cash proceeds and we ended the year with $47 million of cash. Premier represented the last of the many non-core activities that we have exited over the past few years. With a substantial amount of cash on hand now and prospects for generating additional positive cash flow through core operations, we feel very good about our liquidity position.

2) **Substantially reduce our cost structure.** We believe that we are on track to meet our goal of having SG&A costs of approximately $185 million for fiscal 2003, a level $40 to $45 million lower than the cost levels reported for fiscal 2000 and 2001, and approximately $60 million lower than the estimated high point for SG&A costs run rate during fiscal 2001. Overall cost reductions are even more significant, since these cost reduction efforts were partially offset by costs associated with new retail stores opened over the past few years. Also, costs associated with our manufacturing and distribution operations (included in costs of goods sold), have also been reduced, as has our capital spending which has decreased by over $16 million compared to last year. We continue to focus on reducing costs and expect to achieve additional cost savings during fiscal 2003.

3) **Strategically reposition the Company.** With our debt essentially eliminated, and with strong liquidity, and a much-reduced cost structure, our principal focus over the past eight months has been on stabilizing revenue and repositioning ourselves in the marketplace. After significant year-over-year revenue declines during the first and second quarters of fiscal 2002, year-over-year revenue gaps narrowed in the third and fourth quarters, and are expected to narrow even further during the first quarter of fiscal 2003. We believe that the combination of stabilizing revenues and significantly reduced costs should result in a dramatic improvement in operational results beginning in fiscal 2003's first quarter.

As we begin our new fiscal year, our major overarching goals are to:

- Reposition ourselves in the marketplace and prepare for growth.

- Meet our liquidity, revenue and cost commitments.
- Become a "prime" example of what we teach to other organizations regarding execution.

As we meet these commitments, we also have one additional objective, and that is to help to significantly increase interest in and demand for our stock.

We would like to briefly share our thoughts regarding each of these goals, and what we believe we must do to achieve them.

GOAL #1

Reposition ourselves in the marketplace and prepare for growth. To create a foundation for stabilizing revenue and preparing for sustained growth, we have:

1) **Established a strong new value proposition** based on delivering tangible, measurable, business results for our customers. We believe this focus will increase the appeal of our offerings to both existing and potential customers, in good times and bad.
2) **Create new offerings** which combine measurement, learning, and tools to deliver powerful results for our customers.
3) **Establish a position of thought leadership** for FranklinCovey in the marketplace around the topic of "execution."

Following are some highlights regarding the progress we are making in each of these areas:

1) ***Establishing a New Value Proposition to Customers.*** Our value proposition to clients is very simple: it is that we can help them increase the extent to which the people in their organizations, from top to bottom, are passionately and voluntarily focused on their organization's highest priorities. We introduced this new value proposition formally to our sales force, and they in-turn to our customers, beginning in September 2002. The reaction among our own people, and in the marketplace over the past months, has been extremely positive.
2) *Creating New Offerings.* To ensure that we deliver powerfully on our value proposition to customers, our product development and product management teams in both business units have worked tirelessly and brilliantly over the past months to develop and fine-tune a number of new learning, measurement, and tool offerings. We have developed more new offerings over the past six months than at any other time in our history.

Initial reaction to the new offerings has been very positive. Beta test clients and initial paying clients, as well as our own training consultants and client partners, are excited about the quality, depth, and appeal of the new offerings. The real measure of our offerings, however, will be the extent to which they improve results for our clients, and sustain these improvements over time. We are confident that the impact of our new offerings on clients will be powerful, and that this success will become our strongest "sales tool" overtime.

- **New learning and assessment offerings:** Our new learning and assessment offerings include the following:
  - *Focus: Achieving Your Highest Priorities.* This new course is receiving very positive reviews. This course, which will replace our *What Matters Most* personal productivity/time management course, provides an updated, more engaging teach, new films and new content relevant for the "digital age." It can be implemented on a wide range of personal planning tools.
  - *xQ Survey.* The xQ Survey is a powerful, new, assessment tool which measures the extent to which the people throughout an organization understand, and are energetically focused on, their organization's few dominant priorities. The xQ Survey provides an organization with an overall xQ (Execution Quotient) score, together with scores for any subunit, job category, or division.
  - *xQ Debrief.* Once a client organization has participated in an xQ survey of its employees, a FranklinCovey consultant will meet with the client to provide an analysis and interpretation of xQ results, and to suggest ways in which the organization can begin to close its "execution gaps."
  - *Aligning Goals for Results.* This new course helps managers and work groups to identify their few dominant goals, translate them into high leverage activities throughout the

organization, and stay on track for their accomplishment.

- *Rapid Performance Modules (RPM's).* Rapid Performance Modules have been created to supplement the new Focus course. RPM's are single point lessons which can be used by teams or individuals to reinforce key concepts and learning gained during the courses.
- *7 Habits On-line Course.* This new delivery option for 7 Habits is one of the most engaging and interactive on-line courses of its type. 7 Habits On-line enables clients greater flexibility for initial or refresher training.

• **New tool offerings.** Tools have always been an essential part of the FranklinCovey learning process. In recent years, some clients have found it challenging to keep everyone in their organization engaged in the FranklinCovey methodology, because it wasn't easily applicable on all platforms and tools. Our goal has been to ensure that neither organizations nor individuals fail to be attracted to or to remain committed to our methodologies and teaching, because of an inability to apply them on the tools or platform of choice. To achieve this objective, we have recently introduced the following new tool offerings:

- *New software offerings:* These include: (a) PlanPlus for Microsoft Outlook; and (b) FPS 8.0 – which improves synchronization with Outlook for PDA's and phones, utilizing the FranklinCovey methodology.
- *New electronic devices:* These include: (a) new PALM and other handheld PDA offerings; (b) new mobile phone offerings – an area which is becoming increasingly important to our offerings suite; and (c) the exciting new TabletPlanner application for the new Tablet PC's. TabletPlanner allows a user to write on the Tablet PC screen with a digital pen, and combine this handwritten data with digital data and documents entered through Outlook or any other PC application. Our retail stores will carry new Tablet PC's which are loaded with our new TabletPlanner software, and seven major manufacturers of the new Tablet PC are including a trial version of our FranklinCovey Tablet Planner software with all units they sell.
- *New planners, binders, and accessories:* New planner, binder, and accessory offerings are essential to keeping our large customer base excited about our products, and our retail outlets and i-store, and using our catalogs. In addition to our traditional planner offerings, this year's new planner offerings include the Spirit of America, Bally Fitness, and Cranium Planners. Our product teams have also created a strong new collection of binders and accessories which we believe should be very attractive to our customers.

3) ***Establishing a Position of Thought Leadership in the Marketplace.*** Our goal is to become the recognized expert in helping organizations execute on their highest priorities. By creating dialogue within companies regarding the importance of focus and execution, we hope to create an environment that will more readily welcome our value proposition. Our efforts to establish a position of thought leadership in the marketplace include: researching and delivering white papers; making this research available to organizations; publishing articles in trade, business and professional journals; and making presentations to groups of influential organizational leaders. This process is well underway.

GOAL #2

Meet our Financial Commitments. Meeting our financial commitments is essential to earning, and then sustaining, credibility and trust with you our shareholders and in the financial marketplace. Our financial commitments are two-fold: (1) to maintain a position of financial strength and liquidity; and (2) to meet our operating commitments around revenue stabilization, gross margin, SG&A levels, and cash flow.

1) ***Maintain a strong financial position and liquidity.*** As noted above, during our 2002 fiscal year, our goals included: exiting the remainder of our non-core businesses and activities, eliminating our debt and resetting our cost structure. As a result of these efforts, our liquidity position and financial flexibility has strengthened substantially. In addition, we have essentially no debt, off-balance sheet financings or other unrecorded liabilities.

2) ***Meet our operating commitments.*** Despite a continued difficult economic environment, we are increasingly confident of our ability to deliver on our operating plans and commitments this year. These

plans and commitments include: stabilizing revenue, continuing to control and reduce costs, generating positive operating cash flow, and ensuring "transparent" financial reporting of our operating results at all levels. We are confident that these commitments are achievable, and we are off to a good start.

- Stabilizing revenue. After significant declines in revenue over the past two years, the major factors underlying our revenue began to stabilize during the third and fourth quarters of fiscal 2002. These key factors include traffic, conversion rate, and average order-size trends in our CSBU, and booking pace trends in OBSU. We are increasingly optimistic that we will see the end of our revenue declines this year, as our new offerings begin to gain traction in the marketplace.
- Controlling costs. After several years of restructuring and repositioning, we have finally reached the point where, under any reasonable revenue scenario, we expect to have a very substantial turnaround in our reported P&L results for fiscal 2003, beginning with the first quarter. The combination of significant cost reductions, reduced depreciation charges, and reduced amortization and other charges, etc., should result in a significant improvement in our reported operating expense levels in fiscal 2003.
- Ensuring financial "transparency" at all levels. Financial transparency means communicating our results clearly, and with "straight talk", so that stakeholders at all levels know where we are and where we are headed. Our discipline around daily reporting of results in most operating units, weekly revenue and operating reviews, manager conference calls, and quarterly board meetings, certified financial statements, and investor web-casts are already underway.

GOAL #3

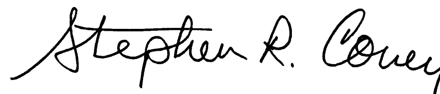
Become a Prime Example of What We Teach.
FranklinCovey's offerings are powerful and effective. We have an extraordinary group of people at FranklnCovey – tremendous, talented associates who care deeply about what we do, and who work hard and passionately. Nevertheless, by utilizing our teaching, tools, methodologies, and measurement instruments ourselves, we can become even more focused and effective. As the application of our content creates positive changes within our own organization, we believe that others will increasingly look to FranklinCovey for solutions to their workplace challenges. Our goal is to have a culture where people are habitually and passionately focused on achieving our critically important priorities.

ADDITIONAL GOAL

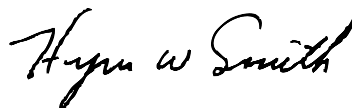
Increase Interest in and Demand for Owning Our Stock.
We believe that achieving our critically important goals should provide us with positive results, and a compelling story to share with you, our investors, analysts, and clients. During Fiscal 2003, we expect to begin actively talking with existing and potential investors about the progress we have made, the trends we are seeing, and our new strategic focus. Building credibility and confidence with our investors will require sustained performance over time. However, we expect that as we meet our commitments and communicate these results, many more investors will have confidence in becoming FranklinCovey shareholders. We appreciate your patience and confidence.

Sincerely,

Robert A. Whitman
Chairman of the Board of Directors



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



Hyrum W. Smith
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, 2002

☐ 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 22, 2002, based upon the closing sale price of the Common Stock of $1.95 per share on that date, was approximately $30,958,428. 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 22, 2002, the Registrant had 20,008,625 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 24, 2003, 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”, “we”, “us”, “our” or “FranklinCovey”) is an international learning and performance solutions company dedicated to helping organizations and individuals to become measurably more effective. To achieve that goal, we provide training and education programs, educational materials, publications, assessment and measurement instruments, implementation processes and application tools. We have organized our business to serve two main customer segments: organizations and individual consumers. We offer solutions for organizations through a combination of assessment instruments, including the xQ (Execution Quotient™) Profile and the 7 Habits Profile, training courses including FOCUS: Achieving Your Highest Potential; Aligning Goals for Results; 7 Habits of Highly Effective People and other offerings, and implementation tools based on the FranklinCovey Planning System including the FranklinCovey Planner, PDA’s (Personal Digital Assistants) devices like PALM®, PlanPlus for Microsoft Outlook®, wireless communication organizers, the Tablet PC and other tools. We measure the impact of training investments through pre- and post- assessment profiles and return on investment analysis.

As noted above, one of our mainstay tools that assist our clients in implementing effectiveness training is the FranklinCovey Planning System. The FranklinCovey Planning System typically implements our principle-based training and learning by using tools such as the FranklinCovey Planner. The original FranklinCovey Planner consists of a paper–based, two–page per day planning system combined with a seven–ring binder, a variety of planning aids, weekly, monthly and annual calendars and personal management sections. The FranklinCovey Planner can also be purchased in one–page per day or two–page per week versions. We also offer various forms and accessories that allow our clients to expand and customize their FranklinCovey Planner. A significant percentage of FranklinCovey Planner users continue to purchase a renewal planner each year, creating substantial recurring sales. We have also developed the FranklinCovey Planning System in electronic formats such as desktop software, as an add-on to PDAs, such as the popular PALM® Computing organizer, Compaq’s® iPAQ™ Pocket PC®, Handspring’s™ Trio® and wireless communication and planning devices. To enhance capabilities within organizations, we have produced an extension for the most widely installed corporate email and scheduling software, Microsoft Outlook®, called PlanPlus™, that incorporates FranklinCovey Planning productivity principles into the Outlook calendar system. FranklinCovey markets the FranklinCovey Planner and accessory products directly to organizations and individuals, through its catalog, its retail stores, its e-commerce Internet site at www.franklincovey.com and through third-party channels. The FranklinCovey Planning System is now also available for the recently introduced Tablet PC through FranklinCovey TabletPlanner software. The software was developed in partnership with Agilix Labs and includes the following features: screen views similar to the paper-based FranklinCovey Planner, natural handwriting interface, the full FranklinCovey Planning System with appointment scheduling, prioritized daily and master tasks and daily notes, digital note-taking and synchronization with Outlook Exchange and an e-Binder concept allowing the collection of all important documents into one place.

The principles we teach in our curriculum have also been published in book and audiotape form. Books sold by the Company include *The 7 Habits of Highly Effective People®, Principle–Centered Leadership, First Things First, The 7 Habits of Highly Effective Families, Nature of Leadership* and *Living the 7 Habits*, all by Stephen R. Covey, *The 10 Natural Laws of Time and Life Management, What Matters Most* and *The Modern Gladiator* by Hyrum W. Smith, *The Power Principle* by Blaine Lee, *The 7 Habits of Highly Effective Teens* by Sean Covey and *Business Think* by Dave Marcum and Steve Smith. These books, as well as audiotape and CD audio versions of many of these products, are sold through general retail channels, as well as through our own catalog, our e-commerce web site at www.franklincovey.com and our more than 180 domestic and international retail stores.

As noted above, we provide effectiveness solutions to organizations in business, industry, government entities, communities, to schools and educational institutions, and to individuals. We sell services to organizations and schools through our own direct sales forces. We then deliver training services to organizations, schools and individuals in one of five ways:

1. FranklinCovey consultants provide on–site consulting or training classes for organizations and schools. In these situations, our consultant can tailor the curriculum to our client's specific business and objectives.
2. We also conduct public seminars in more than 200 cities throughout the United States, where organizations can send their employees in smaller numbers. These public seminars are also marketed directly to individuals through our catalog, e-commerce web-site, retail stores, and by direct mail.
3. Our programs are also designed to be facilitated by licensed professional trainers and managers in client organizations, reducing dependence on our professional presenters, and creating continuing revenue through royalties and as participant materials are purchased for trainees by these facilitators.
4. We also offer *The 7 Habits of Highly Effective People®* training course in online and CD-ROM formats. This self-paced e-learning alternative provides the flexibility that many organizations need to meet the needs of various worker groups, managers or supervisors who can't get away for extended classroom training and executives who need a series of working sessions over several weeks.
5. Through FranklinCovey Coaching LLC we offer follow-on coaching to help individuals implement the training principles they have learned in the training seminar or course they have taken. Personal coaches interact with individuals on a regular basis to review principles and help set goals that eventually align behavior to the principles taught in the training.

In fiscal 2002, we provided products and services to 90 of the Fortune 100 and more than 75 percent of the Fortune 500 companies. We also provide products and services to a number of U.S. and foreign governmental agencies, including the U.S. Department of Defense, as well as numerous educational institutions. Approximately 350,000 individuals were trained during the year ended August 31, 2002.

We also provide products, consulting and training services internationally, either through directly operated offices, or through licensed providers. At August 31, 2002, we had direct operations in Canada, Japan, Australia, Mexico, Brazil and the United Kingdom. We also had licensed operations in 52 countries.

RECENT ACQUISITIONS AND DIVESTITURES

In September 2000, we entered into a joint venture agreement with American Marketing Systems to form Franklin Covey Coaching, LLC. The joint venture agreement required our coaching programs to achieve specified earnings thresholds beginning in fiscal 2002 or the joint venture agreement could be terminated at the option of AMS. However, due to unfavorable economic conditions and other factors, the Company's coaching programs did not achieve the fiscal 2002 earnings threshold requirement. As a result of unfavorable financial performance during fiscal 2002 and performance expectations in future periods, AMS exercised its option to terminate the existing joint venture agreement effective August 31, 2002. Under the provisions of a new partnership agreement, we may receive additional payments totaling up to $3.2 million from AMS and FCC.

In December 2001, we sold the stock of Premier School Agendas, a Bellingham, Washington based wholly owned subsidiary and Premier School Agendas Ltd., based in Canada (collectively "Premier") to School Specialty (NASDAQ: SCHS) of Greenville, Wisconsin, for approximately $152.5 million plus the retention of Premier's working capital, which was received in the form of a $4.0 million promissory note from the purchaser. Prior to the sale closing, we also received cash distributions from Premier's working capital that totaled approximately $7 million. We still maintain the rights to sell our Student Achievement Workshop into schools and school districts.

Unless the context requires otherwise, all references to the "Company", "we", "us", "our" or to "FranklinCovey" 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.

FRANKLINCOVEY PRODUCTS

An important principle taught in our productivity training is to have only one personal productivity system and to have ones' information in that one system. Based upon that principle, we developed the FranklinCovey Planner as one of the basic tools for implementing the principles of our time management system. The original FranklinCovey Planner consists of a paper-based FranklinCovey planning system, a binder in which to carry it, various planning aids, weekly, monthly and annual calendars as well as personal management sections. We offer a broad line of renewal planners, forms and binders for the FranklinCovey Planner in various sizes and styles. For those clients who use digital or electronic productivity systems, we also offer a wide variety of electronic solutions incorporating the same principles as the original FranklinCovey Planner.

Paper Planners. Paper planner renewals are available for the FranklinCovey Planner in various sizes and 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. The paper planner renewals are offered in a number of new offerings to appeal to various customer segments. The Master Pack, which includes personal management tabs and pages, a guide to using the planner, a pagefinder and weekly compass cards complete a FranklinCovey Planner.

Electronic Solutions. We also offer time and life management methodology within a complete Personal Information Management ("PIM") system through the FranklinCovey Planner Software program. This system can be used in conjunction with the paper-based FranklinCovey Planner, electronic handheld organizers or used as a stand-alone planning and information management system. The FranklinCovey Planner Software permits users to generate and print data on FranklinCovey paper that can be inserted directly into the FranklinCovey Planner. The program operates in the Windows® 95, 98, 2000 and NT operating systems. The FranklinCovey Planner Software includes all necessary software, related tutorials and reference manuals.

We also offer PlanPlus™ for Microsoft® Outlook®, software designed to operate as an extension to Microsoft's Outlook® software. This is intended especially for our corporate clients that have already standardized on Microsoft® for group scheduling, but wish to make the FranklinCovey Planning System available to their employees without creating the need to support two separate systems. As this kind of extension proves its value in the market, the FranklinCovey Planner Software extension model will be expanded to other platforms.

We are an OEM provider of the PALM® Computing organizer that includes the FranklinCovey Planner Software when sold through our FranklinCovey channels. The PALM® has become another successful planning tool offered through all of our channels. In an effort to combine the functionality of paper and the capabilities of the PALM®, we introduced products that can add paper-based planning to these electronic planners as well as binders and carrying cases specific to the PALM®. We have also expanded the handheld line to include other electronic organizers with the FranklinCovey Planner software such as the iPAQ™ Pocket PC from Compaq® and the Trio™ by Handspring®.

We also provide *The 7 Habits of Highly Effective People*® training course in online and CD-ROM versions. This new edition delivers the rich, compelling content from the 3-day classroom workshop in a flexible self-paced version via the Internet or CD-ROM that is available when and where employees need it. The Online Edition is presented in a multi-media format with video segments, mouseovers, a learning journal, interactive exercises, and other techniques. Included with the course is a 360(Degree) profile and e-Coaching.

The FranklinCovey Planning System is now also available for the recently introduced Tablet PC through FranklinCovey TabletPlanner software. The software was developed in partnership with Agilix Labs and includes the following features: screen views similar to the paper-based FranklinCovey Planner, natural handwriting interface, the full FranklinCovey Planning System with appointment scheduling, prioritized daily and master tasks and daily notes, digital note-taking and synchronization with Outlook Exchange and an e-Binder concept allowing the collection of all important documents into one place.

Binders. To further customize the FranklinCovey Planning System, we offer binders and electronic organizer accessories (briefcases, portfolios, wallets/ purses, etc.) in a variety of materials, styles and FranklinCovey Planner sizes. These materials include high quality leathers, fabrics, synthetics and vinyls in a variety of color and design options. Binder styles include zipper closures, snap closures, and open formats with pocket configurations to accommodate credit cards, business cards, checkbooks, electronic devices and writing instruments.

Personal Development and Accessory Products. To supplement our principal products, we offer a number of accessories and related products, including books, videotapes and audio cassettes focused on time management, leadership, personal improvement and other topics. We also market a variety of content–based personal development products. These products include books, audio learning systems such as multi-tape, CDs and workbook sets, CD-ROM software products, calendars, posters and other specialty name brand items. We offer numerous accessory forms through our Forms Wizard software, which allows customization of forms, including check registers, spreadsheets, stationery, mileage logs, maps, menu planners, shopping lists and other information management and project planning forms. Our accessory products and forms are generally available in all the FranklinCovey Planner sizes.

TRAINING AND PRODUCTIVITY SOLUTIONS FOR ORGANIZATIONS

FranklinCovey is a leading provider of effectiveness training, productivity tools and assessment services for organizations including corporations, government, education and non-profit firms. These services are marketed and delivered world-wide through our Organizational Strategic Business Unit (OSBU), which consists of talented consultants, selected through a competitive and demanding process, and sales professionals.

FranklinCovey currently employs 105 training consultants in major metropolitan areas of the United States, with an additional 16 training consultants outside of the United States. Our training consultants are selected from a large number of experienced applicants. These consultants generally have several years of training and/or consulting experience and are known for their 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. FranklinCovey believes that the caliber of its training consultants has helped build its reputation for providing high quality seminars. The OSBU can also help organizational clients diagnose inefficiencies in their organization and design the core components of a client's organizational solutions. The new xQ Survey is an exclusive FranklinCovey assessment tool that gathers, from an employee perspective, how well organizational goals are understood and are being carried out. The survey questions, administered through a Web-based system, probe for details to uncover underlying focus and teamwork barriers or issues.

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

Training and Education Programs. We offer a range of training programs designed to measurably improve the effectiveness of individuals and organizations. Our programs are oriented to address personal, interpersonal, managerial and organizational needs. In addition, we believe that our learning process provides an engaging and behavior-changing experience, which frequently generates additional business. During fiscal year 2002, more than 350,000 individuals were trained using the Company's curricula in its single and multiple–day workshops and seminars.

Our single–day *FOCUS: Achieving Your Highest Priorities* workshop teaches productivity skills integrated with a powerful planning system to help individuals clarify, focus on, and execute their highest priorities, both personally and professionally. This seminar is conducted by our training consultants for employees of clients and in public seminars throughout the United States and in many foreign countries. The single-day *Aligning Goals for Results* workshop helps managers identify the highest priorities for their teams and then lead those teams to execute tasks day-after-day.

We also deliver multiple-day workshops, primarily in the Leadership area. Included in these offerings is the 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 content and application tools are delivered deeper into the client's organization. Additionally, a three–day *4 Roles of Leadership* course is offered, which focuses on the managerial aspects of client needs. FranklinCovey Leadership Week consists of a five–day session focused on materials from FranklinCovey's *The 7 Habits of Highly Effective People*® and *The 4 Roles of Leadership* courses. FranklinCovey Leadership Week is reserved for supervisory level management of our corporate clients. As a part of the week's agenda, executive participants plan and design strategies to successfully implement key organizational goals or initiatives.

In addition to providing consultants and presenters, we also train and certify client facilitators to teach selected FranklinCovey workshops within their organizations. We believe client–facilitated training is important to our fundamental strategy of creating pervasive on-going client impact and revenue streams. After having been certified, clients can purchase manuals, profiles, planners and other products to conduct training workshops within their organization, generally without us repeating the sales process. This creates programs which have an on-going impact on our customers and which generate annuity–type revenues. This is aided by the fact that curriculum content in one course leads the client to additional participation in other Company courses. Since 1988, we have trained more than 19,000 client facilitators. Client facilitators are certified only after graduating from one of our certification workshops and completing post–course certification requirements.

We regularly sponsor 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 our clients, the level of promotion and resulting demand, and generally ranges from semi–monthly to quarterly. Our smaller institutional clients often utilize the public seminars to train their employees.

In April 2002, we introduced *The 7 Habits of Highly Effective People*® training course in online and CD-ROM versions. The needs for reaching more employees faster and more inexpensively are the key drivers behind the growth of e-learning in the marketplace. The new 7 Habits Online Edition addresses that need, offering a flexible alternative to classroom training.

<u>Personal Coaching</u>. We offer post-seminar training in the form of personal coaching through an entity called Franklin Covey Coaching, LLC. The entity employs 41 coaches that interact with clients on the telephone to help them implement the training principles learned from the seminar they have taken. The entity offers personal coaching for some of our curriculum as well as seminars offered by other training companies.

SALES AND MARKETING

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

	2002	2001	2000
Consumer Strategic Business Unit			
Retail Stores	$122,496	$156,299	$163,304
Catalog / e-commerce	63,291	90,450	110,543
Other	4,921	7,881	27,919
Total CSBU	190,708	254,630	301,766
Organizational Strategic Business Unit			
Organizational Solutions Group	97,519	134,450	169,986
International	44,771	50,701	50,878
Total OSBU	142,290	185,151	220,864
Total	$332,998	$439,781	$522,630

We market products and services to organizations, schools and individuals both domestically and internationally through FranklinCovey retail stores, catalogs, www.franklincovey.com, our organizational and educational sales forces and other distribution channels.

Retail Stores. Beginning in late 1985, we began a retail strategy by opening retail stores in areas of high client density. The initial stores were generally located in lower traffic destination locations. We have since revised our strategy by locating retail stores in high-traffic retail centers, primarily large shopping centers and malls, to serve existing clients and to attract increased numbers of walk-in clients. Our retail stores average approximately 2,000 square feet. Our retail strategy focuses on providing high quality client service at the point of sale. We believe this approach increases client satisfaction as well as the frequency and volume of purchases. At August 31, 2002, FranklinCovey had 173 domestic retail stores located in 37 states and the District of Columbia and 10 international stores.

We believe that our retail stores serve as attractive distribution centers for existing clients and also encourage walk–in traffic and impulse buying and that store clients are a source of participants for FranklinCovey's public seminars. The stores also provide the opportunity to assess client reaction to new product offerings and to test-market new products.

We believe that our retail stores have an upscale image consistent with our marketing strategy. 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. These sales associates have been trained to use the original FranklinCovey Planner, as well as its various electronic versions, enabling them to assist and advise clients in selection and use of our products. During peak periods, additional personnel are added to promote prompt and courteous client service.

Catalog/e-Commerce. We periodically mail catalogs to our clients, including a fall catalog, holiday catalog, catalogs timed to coincide with planner renewals and catalogs related to special events, such as store openings or new product offerings. Catalogs may be targeted to specific geographic areas or user groups as appropriate. Catalogs are typically printed in full color with an attractive selling presentation highlighting product benefits and features.

During fiscal 2001, we entered into a long-term contract with EDS of Dallas, Texas, to provide a large part of our customer relationship management (CRM) in servicing our Catalog and e-Commerce customers. We use EDS to maintain a client service department, which clients may call toll-free, 24 hours a day, Monday through Saturday, to inquire about a product or to place an order. Through a computerized order entry system, client representatives have access to client preferences, prior orders, billings, shipments and other information on a real-time basis. Each of the more than 227 customer service representatives has the authority to immediately solve client service problems.

The integrated CRM system provided by EDS allows orders from our customers to be processed quickly through its warehousing and distribution systems. Client information stored within the order entry system is also used for additional purposes, including target marketing of specific products to existing clients and site selection for Company retail stores. We believe that the order entry system helps assure client satisfaction through both rapid delivery and accurate order shipment.

Other Channels. We have an alliance with the At-A-Glance group to sell our products through the contract stationer channel. At-A-Glance wholesales other products to contract stationer businesses such as Boise Cascade, Office Express and Staples, which then sell office products through catalog order entry systems to businesses and organizations.

Organizational Solutions Group. Our sales professionals market training, consulting and measurement services to institutional clients and public seminar clients.

We employ 92 sales professionals and business developers located in six major metropolitan areas throughout the United States who sell integrated offerings to institutional clients. We also employ an additional 53 sales professionals and business developers outside of the United States in six countries. Our sales professionals have selling experience prior to employment by the Company and are trained and evaluated in their respective sales territories. Sales professionals typically call upon persons responsible for corporate employee training, such as corporate training directors or human resource officers. Increasingly, sales professionals also call upon line leaders. Our sales professionals work closely with training consultants in their territories to schedule and tailor seminars and workshops to meet specific objectives of institutional clients.

We also employ 105 training consultants throughout the United States who present institutional and public seminars in their respective territories and an additional 16 training consultants outside of the United States. Training consultants work with sales professionals and institutional clients to incorporate a client's goals, policies and objectives in seminars and present ways that employee goals may be aligned with those of the institution.

Public seminars are planned, implemented and coordinated with training consultants by a staff of marketing and administrative personnel at the Company's corporate offices. These seminars provide training for organizations and 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 FranklinCovey 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 our seminars and products. These referrals are generally used as prospects for our sales professionals.

We also provide The 7 Habits of Highly Effective Teens as a workshop or as a year-long curriculum to schools and school districts and other organizations working with youth. Based on upon the *7 Habits of Highly Effective Teens* book, it helps to teach students and teachers better studying skills, learning habits, and interpersonal development. In December 2001, we sold the stock of Premier Agendas to School Specialty for approximately $152.5 million plus the retention of Premier's working capital, which was received in the form of a $4.0 million promissory note from the purchaser. Pursuant to a license from FranklinCovey, Premier is expected to continue to expose over 20 million K-12 students to FranklinCovey's world-renowned *7 Habits* content. We retained the educator leadership and effectiveness training portion of Premier's business.

International Sales. We provide products, training and printing services internationally through Company-owned and licensed operations. We have Company-owned operations and offices in Australia, Brazil, Canada, Japan, Mexico and the United Kingdom. We also have licensed operations in Argentina, Bahamas, Belgium, Bermuda, Bulgaria, Chile, China, Colombia, Croatia, Czech Republic, Denmark, Ecuador, Egypt, Estonia, Finland, France, Germany, Greenland, Hong Kong, Hungary, India, Indonesia, Israel, Italy, Korea, Latvia, Lebanon, Lithuania, Luxembourg, Malaysia, Nigeria, Netherlands, Norway, Panama, Philippines, Poland, Portugal, Puerto Rico, Saudi Arabia, Singapore, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Taiwan, Thailand, Trinidad/Tobago, Turkey, UAE, Uruguay, and Venezuela. We operate retail operations in Canada, Hong Kong, Japan, Mexico, Singapore and Taiwan. Our 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 generated $47.8 million in revenue for the year ended August 31, 2002. After grossing up royalties from licensed operations to their actual sales level, total sales generated in the international operations were $66.5 million.

STRATEGIC DISTRIBUTION ALLIANCES

We have created strategic alliances with innovative and respected organizations in an effort to develop effective distribution of our products and services. The principal distribution alliances currently maintained by FranklinCovey are: Simon & Schuster and Saint Martin's Press in publishing books for the Company; Lumicore 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; MeadWestvaco to market and distribute selected FranklinCovey Planners and accessories through the At-A-Glance catalog office supply channels; PALM® Computing to serve as the official training organization for its PALM® Computing products and distribution agreements with Hewlett Packard and Acer in connection with the Tablet PC.

CLIENTS

We have a relatively broad base of institutional and individual clients. We have more than 2,000 institutional clients consisting of corporations, governmental agencies, educational institutions and other organizations. We believe our products, workshops and seminars encourage strong client loyalty. Employees in each of our distribution channels focus on providing timely and courteous responses to client requests and inquiries. Institutional clients may choose to receive assistance in designing and developing customized forms, tabs, pagefinders and binders necessary to satisfy specific needs.

COMPETITION

Training. Competition in the performance skills organizational training and education industry is highly fragmented with few large competitors. We estimate that the industry represents more than $6 billion in annual revenues and that the largest traditional organizational training firms have sales in the $100 to 150 million range. Based upon FranklinCovey's fiscal 2002 organizational sales of approximately $142 million, we believe we are a leading competitor in the organizational training and education market. Other significant competitors in the training market are Development Dimensions International, Achieve Global (formerly Zenger Miller), Organizational Dynamics Inc., Provant, Forum Corporation, EPS Solutions and the Center for Creative Leadership.

Products. The paper-based time management and personal organization products market is intensely competitive and subject to rapid change. FranklinCovey 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 strong name recognition. We believe our principal competitors include DayTimer, At–A–Glance and Day Runner. We also compete with companies that market substitutes for paper-based products, such as electronic organizers, software PIMs and hand-held computers. Our FranklinCovey Planner Software competes directly with numerous other PIMs. Many of FranklinCovey'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 could pose a competitive threat.

Given the relative ease of entry in FranklinCovey's product and training markets, the number of competitors could increase, many of whom may imitate our 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 us. We believe that the FranklinCovey Planner and related products compete primarily on the basis of user appeal, client loyalty, design, product breadth, quality, price, functionality and client service. We also believe that the FranklinCovey Planner has obtained market acceptance primarily as a result of the concepts embodied in the FranklinCovey Planner, the high quality of materials, innovative design, our attention to client service, and the strong loyalty and referrals of our existing clients. We believe that our integration of training services with products has become a competitive advantage. Moreover, we believe that we are a market leader in the United States among a small number of integrated providers of productivity and time management products and services. Increased competition from existing and future competitors could, however, have a material adverse effect on our sales and profitability.

MANUFACTURING AND DISTRIBUTION

The manufacturing operations of FranklinCovey consist primarily of printing, collating, assembling and packaging components used in connection with our paper product lines. We operate our central manufacturing services out of Salt Lake City. We have also developed partner printers, both domestically and internationally, who can meet our quality standards, thereby facilitating efficient delivery of product in a global market. We believe this has positioned us for greater flexibility and growth capacity. Automated production, assembly and material handling equipment are used in the manufacturing process to ensure consistent quality of production materials and to control costs and maintain efficiencies. By operating in this fashion, we have gained greater control of production costs, schedules and quality control of printed materials.

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

Binders used for our products are produced from either leather, simulated leather, tapestry or vinyl materials. These binders are produced by multiple and alternative product suppliers. We currently enjoy good relations with our suppliers and vendors and with the exception of strikes affecting dock workers do not anticipate any difficulty in obtaining the required binders and materials needed for our business. We have implemented special procedures to ensure a high standard of quality for binders, most of which are manufactured by suppliers in the United States, Europe, Canada, Korea, Mexico and China.

We also purchase numerous accessories, including pens, books, videotapes, calculators and other products, from various suppliers for resale to our clients. These items are manufactured by a variety of outside contractors located in the United States and abroad. We do not believe that we are entirely dependent on any one or more of such contractors and consider our relationships with such suppliers to be good.

TRADEMARKS, COPYRIGHTS AND INTELLECTUAL PROPERTY

We seek to protect our intellectual property through a combination of trademarks, copyrights and confidentiality agreements. We claim rights for more 120 trademarks in the United States and have obtained registration in the United States and many foreign countries for many of our trademarks, including *FranklinCovey, The 7 Habits of Highly Effective People®, Principle–Centered Leadership, Aligning Goals for Results, FOCUS: Achieving Your Highest Priorities, FranklinCovey Planner, PlanPlus,* and *The Seven Habits*. We consider our trademarks and other proprietary rights to be important and material to our business. Each of the marks set forth in italics above is a registered mark or a mark for which protection is claimed.

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

EMPLOYEES

As of August 31, 2002, FranklinCovey had 2,081 full and part–time associates, including 472 in sales, marketing and training; 971 in customer service and retail; 158 in production operations and distribution; and 480 in administration and support staff. During fiscal 2002, the Company outsourced a significant part of its information technology services, customer service, distribution and warehousing operations to EDS. A number of the Company's employees involved in these operations are now employed by EDS to provide those services to FranklinCovey. None of FranklinCovey's associates are represented by a union or other collective bargaining group. Management believes that its relations with its associates are good. FranklinCovey 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. The following is a summary of our owned or leased properties. Our facility lease agreements are accounted for as operating leases, which expire at various dates through the year 2016.

U.S. Administrative Offices:
Salt Lake City, Utah (8 locations) – 3 leased
Provo, Utah (2 locations) – both leased

International Administrative Offices:
Canada (1 location)
Latin America (3 locations) – all leased
Asia Pacific (2 locations) – both leased
Europe (1 location) – leased

Sales Offices:
United States (9 locations) – all leased

Distribution Facilities:
Asia Pacific (2 locations) – both leased
Canada (1 location)
Latin America (1 location) – leased

Manufacturing Facilities:
United States (2 locations)

Retail Stores:
United States (173 locations) – all leased
Canada (6 locations) – all leased
Latin America (4 locations) – all leased

The Company considers its existing facilities sufficient for its current and anticipated levels of operations in the upcoming fiscal year.

Item 3. Legal Proceedings

As part of the sale of Premier Agendas, we retained certain outstanding legal claims against Premier. Subsequent to August 31, 2002, we settled these outstanding claims for approximately $0.8 million, which increased the recorded gain from the sale of Premier as we had accrued $3.5 million for the potential liability related to these claims.

During fiscal 2002, the Company received a subpoena from the Securities and Exchange Commission ("SEC") seeking documents and information relating to our management stock loan program and previously announced, and later withdrawn, tender offer. We have provided the documents and information requested by the SEC, including the testimony of our Chief Executive Officer and other key employees. The Company has cooperated, and will continue to cooperate, fully in providing requested information to the SEC. The SEC has stated that the formal inquiry is not an indication that the SEC has concluded that there has been a violation of any law or regulation. The Company believes that we have complied with the laws and regulations applicable to our management loan program and withdrawn tender offer.

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 our fiscal year ended August 31, 2002.

PART II

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

OVERVIEW

The following management's discussion and analysis is intended to provide a summary of the principal factors affecting the results of operations, liquidity and capital resources, and the critical accounting policies of Franklin Covey Co. (also referred to as the "Company", "we", "us", and "our", unless otherwise indicated) and subsidiaries. This discussion and analysis should be read together with our consolidated financial statements and related notes, which contain additional information regarding the accounting policies and estimates underlying the Company's financial statements. Our consolidated financial statements and related notes begin on page 38 of this report on Form 10-K.

Franklin Covey Co. is a worldwide leader in providing integrated learning and performance solutions to organizations and individuals designed to enhance productivity, leadership, sales performance, communication, and other areas. Each solution set may include products and services that encompass training and consulting, assessment, and various application tools that are generally available in electronic or paper-based formats. Our products and services are available through professional consulting services, public workshops, retail stores, catalogs, and the Internet at www.franklincovey.com. The Company's best-known offerings include the Franklin Planner™, our productivity workshop entitled "What Matters Most", and courses based upon the best-selling book, *The 7 Habits of Highly Effective People.*

Our fiscal year ends on August 31, and unless otherwise indicated, fiscal 2003, fiscal 2002, fiscal 2001, and fiscal 2000, refer to the twelve-month periods ended or ending on August 31, 2003, 2002, 2001, and 2000, respectively.

Key factors that influence our operating results include the number of organizations that are active customers; the number of people trained within those organizations; the sale of personal productivity tools (including Franklin Planners, personal digital assistants or "PDAs", binders, and other related products); and our ability to manage operating costs necessary to provide products and services to our clients.

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

Subsequent to August 31, 2002, we purchased 20 percent of the common stock of Agilix Labs, Inc., a Delaware corporation, for payments totaling $1.0 million in cash. Agilix develops software applications for personal computers, including the new "Tablet PC." The Company may, upon the achievement of specific objectives by Agilix, purchase another 10 percent of the common stock of Agilix Labs, Inc. for $0.5 million.

During fiscal 2001, we entered into a joint venture with American Marketing Systems ("AMS") to form Franklin Covey Coaching, LLC ("FCC"). The operating results of this joint venture were reported as equity in the earnings of an unconsolidated subsidiary in fiscal 2002 and fiscal 2001. Under terms of the joint venture agreement, the Company's coaching programs were required to achieve specified earnings thresholds beginning in fiscal 2002, or the joint venture could be terminated at the option of AMS. Due to unfavorable sales performance by our coaching programs during fiscal 2002, AMS terminated the existing joint venture agreement as of August 31, 2002. Under terms of a new partnership agreement that eventually terminates our interest in FCC, we received a $0.3 million payment and may receive an additional $3.2 million in payments from AMS and FCC. For further information on Franklin Covey Coaching, LLC, refer to Note 5 in our consolidated financial statements.

Effective December 21, 2001, we sold Premier Agendas, Inc. and Premier Agendas, Ltd. (collectively, "Premier"), both wholly owned subsidiaries to School Specialty, Inc., a company that specializes in providing products and services to students and schools. Premier provided productivity solutions to the educational industry, including student and teacher planners. The sale price was $152.5 million in cash plus the retention of Premier's working capital, which was received in the form of a $4.0 million promissory note that was paid in full during fiscal 2002. Prior to the sale closing, we received cash distributions from Premier's working capital that totaled approximately $7 million. Refer to Note 7 in our consolidated financial statements for further information regarding the sale of Premier.

During April 2001, we purchased the Project Consulting Group for $1.5 million in cash. The Project Consulting Group provides project consulting, project management, and project management training services.

As of February 28, 2000, we sold the assets and substantially all of the business of our commercial printing division of Publishers Press. We retained the printing operations necessary for the production of our planners and other related products. For further information regarding the sale of the commercial division of Publishers Press, refer to Note 22 in our consolidated financial statements.

In December 1999, the Company purchased a majority interest in DayTracker.com (renamed franklinplanner.com), an on-line provider of scheduling and calendaring services. During the fourth quarter of fiscal 2002, we discontinued the on-line planning services offered at franklinplanner.com and the results of operations for franklinplanner.com were included as discontinued operations in our consolidated financial statements. For further information regarding the termination of franklinplanner.com operations, refer to Note 7 in our consolidated financial statements.

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

RESULTS OF OPERATIONS

Segment Review

Following the sale of Premier during fiscal 2002, we now have two reporting segments: the Consumer Strategic Business Unit ("CSBU") and the Organizational Strategic Business Unit ("OSBU"). The operating results of Premier and our other products and services designed for teachers and students were previously reported in the Education Business Unit, which was dissolved during fiscal 2002. Our remaining student and teacher programs and products are now classified with the Organizational Strategic Business Unit results of operations.

Consumer Strategic Business Unit – This business unit is focused on sales to individual customers and includes the operating results of our 173 domestic retail stores, 10 international stores, catalog and e-Commerce operations, and other related channels including wholesale sales and manufacturing operations. Although CSBU sales primarily consist of products such as planners, binders, and handheld electronic planning devices, virtually any component of our leadership and productivity solutions can be purchased through CSBU channels.

Organizational Strategic Business Unit – The OSBU is primarily responsible for the development, marketing, sale, and delivery of productivity, leadership, sales performance, and communication training solutions directly to organizational clients, including other companies, the government and educational institutions. The OSBU includes the financial results of the Organizational Solutions Group ("OSG") and our international operations, except for retail stores. The organizational solutions group is responsible for the domestic sale and delivery of productivity, leadership, sales performance, and communication training solutions to corporations and includes sales of training seminars to teachers and students, which were previously reported with the operating results of Premier. The OSG is also responsible for the sale of productivity solutions to wholesale customers and for consulting services that compliment our productivity and leadership training solutions. The international sales group includes our direct offices and licensee sale and delivery operations, including catalog sales.

The following table sets forth selected segment sales and consolidated operational data from continuing operations for the periods indicated. For further reporting segment information, refer to Note 21 in our consolidated financial statements.

YEAR ENDED AUGUST 31,	2002	2001	2000
Consumer Strategic Business Unit:			
Retail stores	$122,496	$156,299	$163,304
Catalog and eCommerce	63,291	90,450	110,543
Other CSBU	4,921	7,881	27,919
	190,708	254,630	301,766
Organizational Strategic Business Unit:			
OSG	97,519	134,450	169,986
International	44,771	50,701	50,878
	142,290	185,151	220,864
Total sales	332,998	439,781	522,630
Cost of sales	149,369	189,982	242,764
Gross margin	183,629	249,799	279,866
Selling, general, and administrative	216,910	224,458	230,353
Stock option purchase and relocation costs			11,227
Provision for losses on management stock loan program	24,775	1,052	
Impairment of investment in unconsolidated subsidiary	16,323		
Loss on impaired assets	10,185	801	1,940
Restructuring cost reversals			(4,946)
Depreciation	33,342	27,441	25,517
Amortization	4,667	10,840	13,069
Income (loss) from operations	**$(122,573)**	**$ (14,793)**	**$ 2,706**

FISCAL 2002 COMPARED WITH FISCAL 2001

Sales

Our overall operating performance was adversely affected by significant sales declines during fiscal 2002. The Company believes that difficult economic conditions in the United States, which were worsened by the terrorist attacks that occurred on September 11, 2001, led to significantly reduced travel schedules for training in addition to tightened budgets for productivity tool and supply expenditures, as our corporate clients sought to decrease operating expenses. In addition, sales of handheld electronic planning devices, which were especially popular during fiscal 2001 and fiscal 2000, declined sharply in fiscal 2002 due to significant reduction in demand for these devices. As a result of these and other factors, we experienced significant sales declines compared to the prior year for both training and productivity tools in our various channels. In an effort to improve both product and training solution sales in future periods, the Company has developed and is developing new training solutions specifically focused around our productivity seminars, and has developed and is developing new personal and organizational software products for our various channels. Additionally, the Company recently introduced "Tablet PCs" and related planning software, which can be purchased through many of our channels. Although the initial response to these products and seminars has been favorable, there can be no assurance that these new products will be widely accepted by our clients.

Product sales, which consist primarily of planners, binders, and handheld electronic planning devices declined by $76.7 million, or 26 percent, from the prior year. The overall decrease in product sales was significant to our retail store, catalog/e-Commerce, and other consumer business unit channels. Retail store sales were adversely affected by declining average sales dollars per transaction combined with a decrease in consumer traffic and overall smaller number of transactions. Of the $33.8 million decline in retail store sales, approximately $25.0 million related to declines in the sales of handheld electronic planning devices and related accessories. Of this decline, approximately $18.0 million occurred during our first two quarters of fiscal 2002. Planner and binder sales through our retail stores also decreased by a total of 12 percent compared to the prior year. These product sales declines included a 14 percent decline during the first two fiscal quarters compared to a eight percent decline during the last two quarters of fiscal 2002. As a result of these sales trends, comparable store (stores that have been open for over a year) retail sales decreased by 28 percent compared to fiscal 2001. Comparable store sales experienced a 31 percent decrease during the first two quarters versus a 24 percent decrease during our last two quarters of fiscal 2002. The sales performance from new stores partially offset the decline in comparable store sales, resulting in a 22 percent overall decrease in retail store sales during fiscal 2002. As of August 31, 2002, we were operating 173 domestic retail stores compared to 164 stores at August 31, 2001. Catalog/e-Commerce sales declined primarily due to reduced call volume in the Company's catalog call center operations, particularly during the first two quarters of fiscal 2002, and to average order size, due primarily to declines in handheld electronic planning device sales.

Training solution and training product related sales decreased by $30.1 million, or 21 percent, compared to the prior year, which was reflected in both domestic and foreign training sales during fiscal 2002. The Company offers a variety of training solutions, training related product, and consulting services focused on productivity, leadership, sales performance, and communications. With the impact of a weak domestic economy, which generally influences corporate, governmental, and educational spending, training sales during fiscal 2002 decreased due to reduced spending for both company facilitator led and on-site training programs. Public program sales and training solution sales to teachers and students in the education industry also decreased compared to fiscal 2001 sales levels. These decreases were partially offset by sales performance seminars, which increased compared to the prior year.

International product and training sales decreased slightly compared to the prior year primarily due to decreased sales in Mexico, Canada, continental Europe, and Australia. These declines were partially offset by increased sales from Brazil and the United Kingdom. Sales in Japan and royalty revenues from licensee operations were essentially flat compared to the prior year. During fiscal 2002, the continental European direct office was converted to a licensee operation, which resulted in reduced sales, but increased margins. The Company also attributes a portion of the decrease in international sales to similar economic factors that had an adverse affect on domestic product and training sales during fiscal 2002.

Gross Margin

Gross margin consists of sales less cost of sales. Our cost of sales includes materials used in the production of planners and related products, assembly and manufacturing labor costs, 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 sales mix, changes in product discount levels, production efficiency, and freight costs.

The Company's overall gross margin during fiscal 2002 decreased to 55.1 percent of sales, compared to 56.8 percent in the prior year. The decline in overall gross margin was primarily due to factors that adversely affected our gross margin during the first and second quarters of fiscal 2002. During our seasonally strong sales months in early fiscal 2002, manufacturers of handheld electronic planning devices discounted many devices and accessories to promote sales. These discounts affected the sale price of many of our handheld electronic devices, resulting in narrower margins. We also experienced a shortage of certain popular planner products due to the bankruptcy of one of our key printing suppliers. This resulted in lost sales and backorders of high margin products. When these backordered products were eventually shipped to customers, we used more expensive overnight delivery methods, which costs could not be passed on to our customers. The Company has also experienced a shift in our product mix toward lower-margin binders and planners during fiscal 2002. As a result of these and other related factors, our gross margin on product sales declined to 50.0 percent compared to 51.6 percent during fiscal 2001.

Training solution costs, as a percentage of sales, increased due to a shift in the product mix of training solutions sold in addition to lower attendance at corporate on-site and public seminar events held during the year. The cancellation and postponement of numerous seminars due to travel restrictions and declining travel subsequent to the terrorist attacks of September 11, 2001, significantly affected the gross margin of seminar sales during the first and second quarters of fiscal 2002. Certain components of public seminar events are fixed, such as direct marketing expenses, site fees, equipment rentals, and presenter costs. With a decline in the average number of participants per public training seminar, the fixed costs for the training seminar resulted in lower gross margins for the events. In addition, some costs incurred for canceled seminars were not refundable. We also developed a custom line of training products for a specific customer that had significantly lower margins than the majority of our other training kits, products, and accessories, thus negatively impacting our training gross margin. These factors combined to reduce the training and service gross margin to 65.4 percent, compared to 67.8 percent in fiscal 2001. As part of our efforts to improve operating results, we are actively seeking to reduce product and seminar costs in order to improve overall gross margins.

Operating Expenses

Selling, general, and administrative ("SG&A") expenses of continuing operations decreased $7.5 million, but due to decreased sales, increased as a percent of sales to 65.1 percent, compared to 51.0 percent of sales in the prior year. The decrease in SG&A expenses was primarily due to specific initiatives implemented to reduce operating expenses and exit non-core activities in order to focus and align corporate strategy and improve overall profitability. These cost reduction initiatives resulted in significantly decreased associate, advertising, travel, and computer and office supply expenses, especially during our third and fourth fiscal quarters, compared to the prior year. Partially offsetting these cost reduction initiatives were severance costs, additional retail store operation costs relating to new stores opened during the year, and outsourcing implementation costs. In connection with our decision to exit non-core and unprofitable activities, we have reduced our employee base during fiscal 2002. As a result of these headcount reduction efforts, the Company incurred and expensed $5.2 million of severance and related costs during fiscal 2002. During fiscal 2001, we entered into long-term outsourcing agreements with Electronic Data Systems ("EDS") to provide warehousing, distribution, information systems, and call center operations. In addition to base charges for services provided, we have incurred and expensed transition costs necessary to operate under terms of the agreements. These charges are not expected to recur and we expect to realize overall savings in these outsourced activities. During fiscal 2002, the Company has implemented and continues to pursue various cost reduction initiatives and believes that our efforts will continue to reduce recurring SG&A costs in fiscal 2003 and in future periods.

Depreciation expense in continuing operations increased by $5.9 million compared to the prior year, primarily due to the acquisition of computer software and hardware, and the addition of leasehold improvements in new and remodeled retail stores. As the Company continues to reduce capital expenditures, and recently purchased computer hardware and software becomes fully depreciated in the next few years, we expect depreciation charges to decline in future periods. Amortization expense attributable to continuing operations decreased by $6.2 million, primarily due to the adoption of SFAS No. 142, which prohibits goodwill amortization and requires a fair value approach, with periodic assessments for impairment, to value goodwill and indefinite-lived intangible assets. As a result of adopting the provisions of SFAS No. 142, we wrote off all recorded goodwill associated with our consumer business unit, organizations business unit, and corporate services group, plus a portion of the Covey trade name intangible asset, which has an indefinite life, from our balance sheet as of September 1, 2001. Refer to Note 4 of our consolidated financial statements for further information regarding the impact of adopting SFAS No. 142.

Provision for Losses on Management Stock Loans

The Company is now the creditor for a loan program that provided certain management personnel with the opportunity to purchase shares of our common stock. As a result of changes to our line of credit agreement obtained in fiscal 2001, the Company is the creditor on these loans, which are full recourse to the participants and are recorded as a reduction to shareholders' equity in our consolidated balance sheets. In connection with these loans, we utilize a systematic methodology to determine the level of reserves that are appropriate for potential losses resulting from the management common stock loan program. A key factor considered by our methodology is the current market value of the common stock held by the participants, although the Company is precluded by certain rules and regulations from holding the participants' stock as collateral for the loans. Other factors considered by our methodology include: the liquid net worth and earnings capacity of the participants; the inherent difficulties and risks of pursuing collection actions against key employees; the probability of sufficient participant repayment capability based upon the proximity to the due date of the loans; and other business, economic, and participant factors which may have an impact on the Company's ability to collect the loans. Based upon our methodology, we recorded charges to operations totaling $24.8 million during fiscal 2002 to increase the loan loss reserve. At August 31, 2002 and 2001, we had aggregate loan loss reserves totaling $25.9 million and $1.1 million, respectively, which reduce notes and interest receivable from related parties in our consolidated balance sheets. Additionally, we discontinued recording interest receivable and corresponding interest income on the loans during the quarter ended May 25, 2002. However, the loan participants remain liable for interest accrued over the full term of their loans, which is due when the loans mature in March 2005. The inability of some or all participants to repay their loans would have a significant adverse effect upon the financial position and future cash flows of the Company.

At August 31, 2002, the participants' loans plus accrued interest exceeded the value of the common stock held by the participants by approximately $29.2 million. Should the value of the common stock continue to be insufficient to cover the balance of the loans outstanding during the loan term, the Company's loan loss reserve methodology provides a basis to be fully reserved prior to the March 2005 loan maturity date.

The establishment of reserves for potential loan losses requires significant estimates and judgment by the Company's management and these estimates and projections are subject to change as a result of various economic factors, most of which are not within the control of the Company. Based on the methodology in place as well as other factors, charges or benefits may be reflected in our operating results in order to increase or decrease the reserve for management stock loan losses in future periods.

Impairment of Investment in an Unconsolidated Subsidiary

Effective September 1, 2000, we entered into a joint venture agreement with American Marketing Systems to form Franklin Covey Coaching, LLC ("FCC"). Each partner owned 50 percent of the joint venture and participated equally in its management. We accounted for our investment in FCC using the equity method of accounting and reported our share of the joint venture's net income as equity in earnings of an unconsolidated subsidiary. Our share of the joint venture's earnings totaled $4.3 million during fiscal 2002, compared to $2.1 million during fiscal 2001. The improvement was primarily due to increased sales of AMS coaching programs and reduced amortization expense at FCC.

The joint venture agreement required the Company's coaching programs to achieve specified earnings thresholds beginning in fiscal 2002 (the joint venture agreement did not contain an earnings threshold requirement in fiscal 2001) or the existing joint venture agreement could be terminated at the option of AMS. As a result of unfavorable coaching program performance for our programs during fiscal 2002, AMS exercised its option to terminate the existing joint venture agreement as of August 31, 2002. Based upon our coaching program performance throughout fiscal 2002, and expected termination of our interest in FCC, we recognized $16.3 million of impairment charges to our investment in FCC during the first two quarters of fiscal 2002. The impairment charges were based upon currently available information related to negotiations with AMS throughout fiscal 2002. Under the provisions of a new partnership agreement that eventually terminates our interest in FCC, we received a $0.3 million payment at the end of fiscal 2002, may receive payments totaling $2.0 million during fiscal 2003, and may receive an additional $1.2 million in payments from AMS and FCC. The new partnership agreement payments are comprised of the following three components:

Ownership Change Payment – On August 30, 2002, AMS paid the Company $0.3 million for our Class A ownership shares in FCC and issued new Class B shares to the Company. The Class B ownership shares prohibit the Company from active participation in the management of FCC, but provide us the opportunity to receive and record a portion of FCC's earnings during fiscal 2003 as described below.

FCC Net Income Recognition – During fiscal 2003, we will continue to recognize a portion of FCC's net income through cash distributions made to the Company up to a maximum of $2.0 million. As we receive these payments during fiscal 2003, we will first reduce our remaining investment in FCC to zero and recognize the excess amount as a credit to operating expenses, rather than as equity in the earnings of an unconsolidated subsidiary. Based upon current operating trends at FCC, we anticipate receiving the entire $2.0 million of cash distribution payments during fiscal 2003.

Contingent Program Payment – The third component of the new partnership agreement is contingent upon the earnings of our coaching programs during fiscal 2003 and September 2003. If our coaching programs achieve earnings before interest, taxes, depreciation, and amortization ("EBITDA") greater than $1.2 million during the 13-month period ended September 30, 2003, then a final payment will be made in October 2003 for the entire contingent program payment. The contingent payment may not exceed $1.2 million, however, the contingent payment may be reduced on a dollar-for-dollar basis if our coaching programs fail to produce $1.2 million of EBITDA during the measurement period. We will record the contingent program payment receivable as a component of other current assets to the extent it is earned during the measurement period by our coaching program financial results.

Following receipt of the new partnership agreement payments, we will have no further profit participation in the earnings of FCC. Our remaining investment in Franklin Covey Coaching, LLC totaled $0.6 million at August 31, 2002.

Loss on Impaired Assets

We regularly review our long-lived assets for circumstances or events that indicate an asset may not be recoverable. Our losses on impaired assets consisted of the following for the periods indicated (in thousands):

FISCAL YEAR ENDED AUGUST 31,	2002	2001	2000
Covey trade name	$ 4,000		
Note receivable from sale of subsidiary	2,282		
Capitalized software development costs	1,758	$801	$1,940
Computer software	1,097		
Retail store assets	1,001		
Other	47		
	$10,185	**$801**	**$1,940**

During the fourth quarter of fiscal 2002, we reassessed the carrying value of the Covey trade name, an indefinite-lived intangible asset, under the provisions of SFAS No. 142. Due to declining sales and estimated future sales associated with the Covey trade name, we recorded a $4.0 million impairment charge to this asset. The value of the Covey trade name will continue to be evaluated in future periods and may require further impairment charges.

The note receivable from the sale of a subsidiary became impaired when the purchaser declared bankruptcy during the second quarter of fiscal 2002. The note receivable was guaranteed by the parent company of the purchaser, however, the parent company also became insolvent during fiscal 2002 and the possibility of recovery on the note receivable appears remote.

Based upon unfavorable sales trends and projected sales information, we recorded total impairment charges of $1.8 million for capitalized development costs related to software products that produced less-than-expected sales volume. During fiscal 2001 and 2000, we recorded $0.8 million and $1.9 million, respectively, of impairment charges for capitalized software development costs that were affected by similarly unfavorable sales trends and estimated sales projections. We also recorded a $1.1 million impairment charge related to a customer database management software application, which was developed and installed by an external company, and became obsolete when we selected a new database software provider.

As a result of projected negative cash flows at certain of our retail stores, we recorded impairment charges totaling $1.0 million to reduce the carrying value of the long-lived assets, which primarily consisted of furniture, fixtures, and leasehold improvements, of these stores to their estimated net realizable value at August 31, 2002.

Interest Income and Expense

Interest income and expense were primarily influenced by cash received from the sale of Premier, which occurred on December 21, 2001, and the reduction of recorded interest income from management stock loan program participants. The Company used a portion of the proceeds from the sale of Premier to repay and terminate our existing term note and line of credit agreement. In addition, during the third quarter of fiscal 2002, we stopped recording interest income from participants of the management loan program. The management stock loan program participants are still liable for the interest expense on their loans, which are due in March 2005. Primarily as a result of these items, the Company's interest income was essentially flat compared to the prior year and interest expense decreased by $4.9 million compared to fiscal 2001.

Income Taxes

The Company's effective income tax benefit rate applicable to our loss on continuing operations was significantly reduced by the valuation allowances that were recorded against our deferred income tax assets during fiscal 2002, due to uncertainties surrounding the recovery of income tax assets against taxable income in future periods. The Company does not anticipate recognizing income tax benefits on its books from future losses, due to uncertainties associated with the utilization of the operating loss carry-forwards in future periods.

Loss on Discontinued Operations

During fiscal 2002, we sold the operations of Premier Agendas and discontinued our on-line planning service offered at franklinplanner.com. Under the applicable accounting rules, these operations were classified as discontinued operations in our consolidated financial statements. The operating results of Premier and franklinplanner.com were recorded as discontinued operations, net of tax, and consisted of the following for fiscal years 2000 through 2002 (in thousands):

FISCAL YEAR ENDED AUGUST 31,	2002	2001	2000
Income (loss) from Premier operations, net of tax	$(5,844)	$5,190	$4,486
Loss from franklin-planner.com operations, net of tax	(1,740)	(3,077)	(1,423)
Income (loss) from discontinued operations	$(7,584)	$2,113	$3,063

The fiscal 2002 loss from the operations of Premier covers only the period from September 1, 2001 through December 21, 2001, the closing date of the sale, a period during which Premier does not recognize significant sales. The operations of franklinplanner.com were discontinued during the fourth quarter of fiscal 2002.

Gain on Sale of Discontinued Operations

Effective December 21, 2001, we sold the operations of Premier, a wholly owned subsidiary. Premier provided productivity and leadership solutions to the educational industry, including student and teacher planners. The sale price was $152.5 million in cash plus the retention of Premier's working capital, which was received in the form of a $4.0 million promissory note from the purchaser. Prior to the sale closing we received cash distributions from Premier's working capital that totaled approximately $7 million. The promissory note was paid in June 2002. Additionally, we will receive $0.8 million of cash from Premier related to income tax payments. The Company agreed not to sell student planners containing the Company's "7 Habits" and "What Matters Most" content directly to schools and school districts in the K through 12 market subsequent to the closing of the sale. We recognized a pretax gain of $99.9 million ($64.9 million after applicable taxes) on the sale of Premier, which was recorded as a gain on the sale of discontinued operations in our consolidated statement of operations for fiscal 2002.

Cumulative Effect of Accounting Change

Effective September 1, 2001, we adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets." The provisions of SFAS No. 142 prohibit the amortization of goodwill and indefinite-lived intangible assets and require such assets to be tested for impairment and to be written down to fair value, if necessary. In order to assess the value of our goodwill and indefinite-lived intangibles as of September 1, 2001, we engaged an independent valuation firm. The valuation process assigned the Company's assets and liabilities to our operating business units and then provided a fair market value of those assets using a discounted cash flow model that also considered factors such as market capitalization and appraised values of certain assets. Based upon the results of the valuation, we expensed all of the goodwill assigned to the organizations business unit, consumer business unit, and corporate support services, plus a portion of the Covey trade name intangible asset, which has an indefinite life. The write-off totaled $61.4 million after applicable tax benefits. Goodwill and intangible assets assigned to the education business unit, which consisted primarily of Premier, were not written down because the carrying value of that business unit's assets exceeded their book value at the measurement date. Remaining intangible assets were primarily generated from the merger with Covey Leadership Center and were assigned to the OSBU.

Preferred Stock Dividends

Preferred stock dividends increased over the prior year due to the issuance of additional shares of preferred stock during the first and second quarters of fiscal 2002 as payment for accrued preferred dividends. The Company had the option to pay accrued dividends with cash or additional shares of preferred stock until July 1, 2002. Subsequent to that date, preferred stock dividends must be paid quarterly in cash. Accordingly, the Company expects to pay all future preferred stock dividends with cash.

FISCAL 2001 COMPARED WITH FISCAL 2000

Sales

Product sales from continuing operations declined by $64.9 million, or 18 percent, compared to fiscal 2000. The decline in product sales primarily affected the operational results of the consumer strategic business unit, which includes retail stores, catalog and eCommerce operations, and other related channels. Retail store sales decreased primarily due to reduced consumer traffic during fiscal 2001, combined with strong sales of handheld electronic planning devices and related accessories in fiscal 2000. The Company attributes the decline in consumer traffic to deteriorating general economic conditions in the United States that began in late 2000, cannibalization of existing store sales by newly opened stores, and slowing demand for various handheld electronic planning devices and accessories. These factors combined to produce a 17 percent decrease in comparable store sales, which was partially offset by the addition of 29 new stores during fiscal 2001. The Company was operating 164 stores at August 31, 2001. Catalog/eCommerce sales declined primarily due to decreased call volume in the Company's catalog operations. However, sales through the Company's web site at www.franklincovey.com continued to increase compared to the prior year and partially offset decreased catalog sales. Other CSBU sales declined primarily due to declining wholesale sales and the sale of the commercial division of Publishers Press.

Training and service sales from continuing operations decreased by $18.0 million, or 11 percent, compared to fiscal 2000. Our training seminars and consulting services are delivered through the Organizational Solutions Group in the United States. OSG sales decreased due to reduced on-site corporate leadership and productivity seminars, corresponding reduced sales of associated training products, public program sales, and the formation of Franklin Covey Coaching, LLC to deliver coaching services. Public seminar sales declined due to an overall reduction in the number of participants attending our public programs. The Company attributes the decline in corporate and public seminar sales to economic conditions that appear to have adversely affected corporate training spending during fiscal 2001. As a result of the formation of the Franklin Covey Coaching, LLC joint venture, we no longer recognize the sales of the Personal Coaching division, but only recognize our share of net income from the joint venture. International sales were essentially flat compared to fiscal 2000, with increased sales from Mexico and Europe partially offset by sales decreases in Australia, Canada, New Zealand, and at various licensee operations.

Gross Margin

During fiscal 2001, our overall gross margin in continuing operations improved to 56.8 percent, compared to 53.5 percent in fiscal 2000. Our gross margin improved primarily due to reduced inventory costs resulting from improved procedures, the sale of the commercial division of Publishers Press, increased sales of training and services as a percent of total sales, and price increases on certain planner products and seminars. Partially offsetting these factors was the formation of Franklin Covey Coaching, LLC, which reduced our overall gross margin due to financial reporting requirements that exclude the favorable gross margins of the personal coaching business from our financial statements. Fiscal 2001 operating results did not include sales and corresponding costs from the commercial printing division of Publishers Press, which was sold effective February 28, 2000. Commercial printing sales had significantly lower margins than the majority of our other products and services. As a result of improved inventory procedures, the sale of the commercial printing operations of Publishers Press, and price increases on certain planner products, our gross margin on product sales improved to 51.6 percent of sales compared to 48.9 percent of sales in fiscal 2000.

During fiscal 2001, sales of training and consulting services, which have gross margins significantly higher than the majority of our products, increased as a percent of total sales. In addition, we implemented numerous cost savings initiatives to offset the overall decline in training and service sales. These factors combined to improve the training and services gross margin to 67.8 percent of sales compared to 64.1 percent of sales in fiscal 2000.

Operating Expenses

Our selling, general, and administrative expenses in continuing operations decreased by $5.9 million, net of stock option purchase and relocation costs, compared to fiscal 2000. However, due to reduced sales volume, SG&A expenses increased as a percent of sales to 51.0 percent, compared to 44.1 percent in fiscal 2000. The decrease in SG&A expenses was primarily due to the formation of Franklin Covey Coaching, LLC, reduced catalog and related promotion costs, reduced associate costs, decreased international operating expenses, and cost reduction efforts in various areas of the Company. Due to the formation of the FCC joint venture, we no longer include the operating expenses of our Personal Coaching division, which totaled $10.8 million during fiscal 2000, in our consolidated financial statements. During fiscal 2001, we reduced certain catalog and promotional expenses to improve the overall profitability of our catalog/eCommerce operations in light of declining sales, especially from our catalog operation. Due to declining sales volumes experienced during fiscal 2001, we also implemented cost saving initiatives in various operating areas of the Company. Partially offsetting these reductions were increased operating expenses resulting from the Company's 29 additional retail stores that were opened during fiscal 2001.

Depreciation expense from continuing operations increased by $1.9 million compared to fiscal 2000, primarily due to the addition of leasehold improvements and fixtures in new stores, the purchase of computer hardware and software, and the purchase of manufacturing equipment. Amortization charges decreased $2.2 million, primarily due to the contribution of personal coaching intangible assets to the Franklin Covey Coaching, LLC, joint venture. The amortization of these contributed intangibles was recorded in the operating results of Franklin Covey Coaching, LLC.

Equity in Earnings of Unconsolidated Subsidiary

Effective September 1, 2000, the Company entered into a joint venture agreement with AMS to form Franklin Covey Coaching, LLC. Each partner owned 50 percent of the joint venture and participated equally in its management. We accounted for our investment in Franklin Covey Coaching, LLC using the equity method of accounting and reported our share of the joint venture's net income as equity in earnings of an unconsolidated subsidiary. Our share of the joint venture's earnings totaled $2.1 million during fiscal 2001.

Interest Income and Expense

In general, interest income and expense was affected by our unfavorable operating performance during fiscal 2001, which resulted in higher debt balances and lower cash balances when compared to fiscal 2000. In addition, interest expense increased due to larger debt balances resulting from the Company's line of credit agreement signed during the fourth quarter of fiscal 2001. The new line of credit agreement included the management stock loan participants' debt, which was previously guaranteed by the Company. As a result, we paid interest on amounts borrowed to acquire the loans. Interest is not due from the participants of the management stock loan program until the loans mature in March 2005. The Company recognized $2.5 million of additional interest income, which was recorded as a receivable from the loan participants during fiscal 2001.

Income Taxes

Our effective income tax rate in fiscal 2001 was adversely affected by non-deductible goodwill amortization, the effects of foreign losses, and the magnified effects of other non-deductible items resulting from decreased taxable income. Amortization of goodwill primarily resulting from the merger with Covey Leadership Center and other acquisitions was not deductible for income tax purposes and had an adverse effect on our effective tax rates in fiscal 2001 and fiscal 2000.

Preferred Stock Dividends

Preferred stock dividends increased in fiscal 2001 over the prior year due to the issuance of additional shares of preferred stock as payment for accrued dividends.

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 and was revised to include the operational results of Premier and franklinplanner.com as discontinued operations. Additionally, the following quarterly information for fiscal 2002 was revised to reflect the cumulative effect of adopting the provisions of SFAS No. 142, which was retroactively recorded in our first quarter of fiscal 2002 as required by SFAS No. 142. Results of any one or more quarters are not necessarily indicative of continuing trends.

Quarterly Financial Information:

YEAR ENDED AUGUST 31, 2002

In thousands, except per share amounts	Q1	Q2	Q3	Q4
Sales	$ 84,340	$103,326	$ 71,091	$ 74,241
Gross margin	47,487	56,765	39,305	40,072
SG&A expense	56,361	58,557	49,688	52,304
Provision for losses on management stock loans	9,971	8,485	247	6,072
Impairment of investment in unconsolidated subsidiary	1,861	14,462		
Loss on impaired assets		4,518		5,667
Depreciation	8,246	8,424	7,994	8,678
Amortization	1,328	1,043	1,125	1,171
Loss from operations	(30,281)	(38,722)	(19,750)	(33,820)
Equity in earnings of unconsolidated subsidiary	863	1,028	1,274	1,151
Loss before benefit for income taxes	(35,799)	(36,387)	(18,323)	(31,670)
Loss from continuing operations	(21,479)	(23,848)	(11,489)	(39,650)
Loss from discontinued operations, net of tax	(4,173)	(1,823)	(274)	(1,314)
Gain on sale of discontinued operations, net of tax		60,774		4,077
Net income (loss) before cumulative effect of accounting change	(25,652)	35,103	(11,763)	(36,887)
Cumulative effect of accounting change, net of tax	(61,386)			
Net income (loss)	(87,038)	35,103	(11,763)	(36,887)
Preferred dividends	(2,130)	(2,183)	(2,184)	(2,184)
Net income (loss) attributable to common shareholders	$ (89,168)	$ 32,920	$(13,947)	$(39,071)
Diluted income (loss) per share attributable to common shareholders	$ (4.49)	$ 1.66	$ (.70)	$ (1.96)

YEAR ENDED AUGUST 31, 2001

In thousands, except per share amounts	Q1	Q2	Q3	Q4
Sales	$125,616	$131,500	$ 88,035	$ 94,630
Gross margin	75,472	73,240	47,993	53,094
SG&A expense	55,462	57,103	54,780	57,113
Provision for losses on management stock loans				1,052
Depreciation	6,061	5,951	7,513	7,916
Amortization	2,789	2,711	2,682	2,658
Income (loss) from operations	11,159	7,474	(17,283)	(16,143)
Equity in earnings of unconsolidated subsidiary	885	550	607	46
Income (loss) before provision for income taxes	10,750	7,061	(18,232)	(16,775)
Net income (loss) from continuing operations	5,042	3,312	(10,028)	(11,522)
Income (loss) from discontinued operations, net of tax	(3,712)	(4,116)	(4,559)	14,500
Net income (loss)	1,330	(804)	(14,587)	2,978
Preferred dividends	(2,028)	(2,028)	(2,028)	(2,069)
Income (loss) available to common shareholders	$ (698)	$ (2,832)	$(16,615)	$ 909
Diluted income (loss) per share attributable to common shareholders	$ (.03)	$ (.14)	$ (.84)	$ .05

The Company's quarterly results of operations reflect seasonal trends that are primarily the result of customers who renew their Franklin Planners on a calendar year basis. OSG sales are moderately seasonal because of the timing of corporate training, which is not typically scheduled as heavily during holiday and vacation periods. After the sale of Premier in fiscal 2002, the seasonal nature of our operations will reflect higher sales and significantly higher operating margins during the first and second quarters, with declines in sales and income generally occurring during the third and fourth quarters of each fiscal year.

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

LIQUIDITY AND CAPITAL RESOURCES

Historically, our primary sources of capital have been net cash provided by operating activities, long-term borrowings, line-of-credit financing, asset sales, and the issuance of preferred and common stock. Working capital requirements have also been financed through short-term borrowing, line-of-credit financing, and asset sales. During fiscal 2002, we used a portion of the proceeds from the sale of Premier to retire the majority of our outstanding debt and terminate our line of credit agreement. We have not sought to obtain a new line of credit financing agreement subsequent to this transaction. With significantly reduced debt balances and $47.0 million of cash at August 31, 2002, we believe that our liquidity position is strong. However, the maintenance of adequate liquidity in future periods will be subject to the Company's future investing and financing activities, and is dependent upon the Company's ability to generate positive cash flows from operations and control capital expenditures.

Cash Flows From Operating Activities

Primarily due to a significant decline in sales and resulting operating losses during fiscal 2002, we used $7.0 million of net cash to fund operating activities during fiscal 2002. We had significant adjustments to net loss to arrive at cash flows from operating activities in fiscal 2002, including $64.9 million from the gain on sale of Premier, a $61.4 million charge from the adoption of SFAS No. 142, $42.1 million of depreciation and amortization charges, and $24.8 million from increases to the provision for potential losses on our management stock loan program. Consistent with prior years, the primary source of cash from operating activities was the collection of accounts receivable from Premier sales, which occur primarily during our fourth fiscal quarter. The majority of Premier's accounts receivable at August 31, 2001 were collected prior to the sale of Premier in December 2001. The primary use of operating cash was the payment of Premier's accounts payable and accrued liabilities, which are seasonally high at August 31. Due to the sale of Premier in fiscal 2002, these cash flow trends in operating activities should change in future periods to reflect new seasonal sales patterns.

Due to unfavorable cash flow trends from operating activities over prior years, the Company has implemented numerous initiatives to improve cash flows from operating activities, including programs designed to increase sales, reduce operating costs, and decrease inventories during fiscal 2003 and in future periods. Although the success of these initiatives is dependent upon a number of factors, many of which are not within our control, the Company believes that we will be successful in improving our cash flows from operating activities during future periods.

Cash Flows from Investing Activities and Capital Expenditures

Primarily as a result of the sale of Premier, we recorded $152.5 million of cash provided by investing activities during year ended August 31, 2002. During fiscal 2002, we received cash proceeds totaling $156.5 million from the sale of Premier and received $4.3 million of cash distributions from our investment in Franklin Covey Coaching, LLC. These investing activity cash inflows were partially offset by $10.6 million of capital expenditures that occurred during fiscal 2002. Our fiscal 2002 capital expenditures were used to purchase computer software, computer hardware, leasehold improvements in new and remodeled retail stores, and other machinery and equipment. During fiscal 2002, we actively sought to reduce capital spending and focus our expenditures on critical equipment and projects and expect to continue to do so in future periods.

Cash Flows from Financing Activities

Cash used for financing activities in fiscal 2002 was primarily affected by our payment of substantially all of our debt balances and the termination of our line of credit facilities. We used net cash totaling $113.9 million for financing activities, of which $109.4 million was used to repay debt. We also used $4.9 million of cash to settle an interest rate swap instrument and paid $4.4 million of cash for preferred dividends during fiscal 2002. Net cash used for financing activities during fiscal 2001 totaled $25.0 million.

Contractual Obligations

The Company has not structured any special purpose entities, or participated in any commodity trading activities, which would expose us to potential undisclosed liabilities or create adverse consequences to our liquidity. Required contractual payments consist primarily of payments to Electronic Data Systems ("EDS") for outsourcing services related to information systems, warehousing and distribution, and call center operations; rent expense for retail store and sales office space; cash payments for Series A Preferred Stock dividends; and mortgage payments on certain buildings and property. Our expected payments on these obligations over the next five years are as follows (in thousands):

	Maturity (Fiscal Year)						
Description	2003	2004	2005	2006	2007	Thereafter	Total
Minimum required payments to EDS for outsourcing services	$31,298	$31,431	$31,428	$30,246	$28,919	$208,031	$361,353
Minimum Lease payments	16,980	14,915	11,724	8,255	6,378	21,881	80,133
Series A Preferred Stock dividend payments	8,735	8,735	8,735	8,735	8,735	–	43,675
Debt principal payments	189	83	89	96	103	1,046	1,606
Total expected payments for contractual obligations	$57,202	$55,164	$51,976	$47,332	$44,135	$230,958	$486,767

Other Items

The Company is the creditor for a loan program that provided certain management personnel with the opportunity to purchase shares of our common stock. As a result of changes to our line of credit agreement obtained in fiscal 2001, the Company is now the creditor on these loans, which are full recourse to the participants and are recorded as a reduction to shareholders' equity in our consolidated balance sheets. For further information regarding our management stock loan program, refer to the analysis in the comparison of fiscal 2002 operating results compared to fiscal 2001. The inability of some or all of the participants to repay their loans would have a significant adverse effect upon the financial position and future cash flows of the Company.

Going forward, the Company will continue to incur costs necessary for the operation and potential growth of the business. We anticipate using cash on hand, cash provided by operating activities on the condition that we can return to positive cash flows from operations, and other financing alternatives, if necessary, for these expenditures. Management anticipates that its existing capital resources should be sufficient to enable the Company to maintain its current level of operations for the upcoming fiscal 2003. However, the ability of the Company to maintain adequate capital for our operations is dependent upon a number of factors, including sales levels, our ability to contain costs, levels of capital expenditures, and other factors. Some of the factors that influence our operations are not within our control, such as economic conditions and the introduction of competitive new technology and products. The Company will also continue to monitor its liquidity and may pursue additional financing alternatives, if required, to maintain sufficient resources for future growth and capital requirements. However, there can be no assurance such financing alternatives will be available on terms acceptable to the Company.

USE OF ESTIMATES AND CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses during the periods presented. Management regularly evaluates its estimates and assumptions including those related to allowances for doubtful accounts, sales returns and allowances, inventory valuation, the valuation of long-lived assets, valuation of its investment in Franklin Covey Coaching LLC, the calculation of the reserve on our management stock loan program, and the establishment of valuation allowances on our deferred tax assets. Management bases its estimates and assumptions on historical experience, factors that are believed to be reasonable under the circumstances, and requirements under generally accepted accounting principles. Actual results may differ from these estimates under different assumptions or conditions, including changes in the economy and other situations that are not in the control of the Company, which may have an impact on these estimates and our actual financial results. Management believes that accounting for the following areas may involve a higher degree of judgment or complexity:

Allowance for Doubtful Accounts

In the normal course of business, the Company extends credit to our customers based on financial and other criteria. The Company maintains allowances for doubtful accounts based upon estimated losses that result from the inability of customers to make required payments. Management assesses the adequacy of its allowances through analysis of the aging of accounts receivable at the date of the financial statements, assessments of historical collection trends, and the impact of current economic conditions.

Sales Returns and Allowances

Costs associated with the potential return of both products and services are recorded as a reduction of sales and are recorded as an allowance for sales and returns. These costs are based upon known returns, and trends related to the timing of returns.

Inventory Valuation

Inventories are stated at the lower of cost or market with cost determined using the first-in, first-out method. We record reductions to our inventories that are equal to the difference between the cost of the inventory and the estimated net realizable value of the inventories. Our inventories are comprised primarily of dated calendar products and other non-dated products such as binders, handheld electronic devices, stationery, and other accessories. In order to value our dated calendar products, the Company has developed a methodology that is based upon historical sales trends of dated items. Non-dated inventory items are evaluated based upon historical sales trends, technological obsolescence, new product introductions, and other factors that influence estimated realizable value. Our management regularly assesses the valuation of inventories by reviewing the costing of inventory, the significance of slow-moving inventory, and the impact of current economic conditions.

Valuation of Long-Lived Assets

We review our long-lived assets, including intangible assets and intangible assets deemed to have an indefinite life, for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In evaluating the fair value and future benefits of such assets, we perform an analysis of the expected discounted or undiscounted future net cash flows of the assets, as appropriate, over the remaining amortization period. If the carrying value of the asset exceeds the anticipated future cash flows from the asset, the Company recognizes an impairment loss equal to the deficit. Actual cash flows may differ materially from estimated future cash flows used for the evaluation of long-lived assets.

Valuation of Investment in Franklin Covey Coaching LLC

Effective September 1, 2000, we entered into a joint venture agreement with American Marketing Systems ("AMS") to form Franklin Covey Coaching, LLC ("FCC"). Each partner owned 50 percent of the joint venture and participated equally in its management. The joint venture agreement required our coaching programs to achieve specified earnings thresholds beginning in fiscal 2002 (the joint venture agreement did not contain an earnings threshold requirement in fiscal 2001) or the joint venture agreement could be terminated at the option of AMS. As a result of worse than expected performance from our programs during fiscal 2002, AMS terminated the existing joint venture agreement as of August 31, 2002. As a result of this decision, we recognized impairment charges to our investment in FCC totaling $16.3 million during fiscal 2002. These impairment charges were based upon the expected termination of our interest in FCC and corresponding expected cash payments and expected return of certain tangible assets. Prior to the end of fiscal 2002 a new partnership agreement was obtained that could pay the Company up to $3.5 million over the life of the agreement. For further information regarding the new partnership agreement, refer to the equity in earnings of unconsolidated subsidiary in the comparison of fiscal 2002 results with fiscal 2001.

Loan Loss Reserve on Management Stock Loan Program

The Company is the creditor for a loan program that provided certain management personnel with the opportunity to purchase shares of our common stock. These loans are full recourse to the participants and are recorded as a reduction to shareholders' equity in the Company's consolidated balance sheets. In order to assess the net realizable value of these loans, the Company utilizes a systematic methodology for determining the level of loan loss reserves that are appropriate for the management common stock loan program. A key factor considered by the Company's methodology is the current market value of common stock held by the participants. Other factors considered by the methodology include: the liquid net worth and earnings capacity of the participants; the inherent difficulties and risks of pursuing collection actions against key employees; the probability of sufficient participant repayment capability based upon the proximity to the due date of the loans; and other business, economic, and participant factors which may have an impact on the Company's ability to collect the loans.

Based upon this methodology, the Company recorded charges to operations totaling $24.8 million during fiscal 2002 to increase the loan loss reserve. As of August 31, 2002, the Company had an aggregate loan loss reserve totaling $25.9 million, which reduces notes and interest receivable from related parties in our consolidated balance sheets. For further information regarding the management stock loans and the corresponding reserve for loan losses, refer to Note 14 of the notes to the consolidated financial statements.

Valuation Allowances on Deferred Tax Assets

Based upon the weight of available evidence, and the nature and duration of various deferred tax assets, we determined that it is more likely than not that the related benefits from deferred tax deductions and foreign tax carryforwards will not be realized. Accordingly, we recorded the appropriate valuation allowances on our deferred tax assets during fiscal 2002.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") released SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement addresses the accounting treatment for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The provisions of the statement apply to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, or normal operation of a long-lived asset. The statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company will adopt the provisions of SFAS No. 143 during fiscal 2003, but does not expect this statement to have a material impact on our results of operations or financial position.

During June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement applies to costs associated with an exit activity, including restructuring activities, or with the disposal of long-lived assets. Exit activities can include eliminating or reducing product lines, terminating employees and related contracts, and relocating plant facilities or personnel. Under the provisions of SFAS No. 146, entities will be required to record a liability for a cost associated with an exit or disposal activity when that liability is incurred and can be measured at fair value. The provisions of SFAS No. 146 are effective for exit activities initiated after December 31, 2002. We have not completed our analysis of the provisions of SFAS No. 146, but we do not expect the guidelines found in this statement to have a material impact upon our results of operations or financial position.

During July 2002, President George W. Bush signed the Sarbanes-Oxley Act of 2002 (the "Act") into law. The Act prescribes, among other items, sweeping corporate governance and oversight changes, new reporting responsibilities for internal controls, and requires our Chief Executive Officer and Chief Financial Officer to certify the accuracy of filed reports. The various provisions of the Act have phase-in provisions and become effective at different times in the future. Subsequent to the signing of the Act into law, we have been actively engaged in defining policies and procedures that will bring the Company into compliance with the provisions of the Act. Although the Act contains significant changes to corporate governance, places greater emphasis on internal controls, and requires certification of financial statements, we do not expect the provisions of the Act to have a material impact upon the financial condition or the results of operations of the Company.

REGULATORY COMPLIANCE

The Company is registered in 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 AND CHANGING PRICES

Inflation has not had a material effect on our 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 our customers.

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

With the exception of historical information (information relating to the Company's financial condition and results of operations at historical dates or for historical periods), the matters discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere are forward-looking statements that necessarily are based on certain assumptions and are subject to certain risks and uncertainties. Such uncertainties include, but are not limited to, unanticipated developments in any one or more of the following areas: the risk that our revenues will continue to decline, our ability to reduce costs sufficiently to permit profitable operations in connection with reduced revenues, the ability to maintain revenues at a sufficient level to recognize anticipated benefits from the EDS outsourcing agreements, unanticipated costs or capital expenditures, our ability to provide quality customer service subsequent to recent and potential associate reductions, delays or outcomes relating to the Company's restructuring plans, availability of financing sources, dependence on products or services, the rate and consumer acceptance of new product introductions, competition, the number and nature of customers and their product orders, pricing, pending and threatened litigation, and other factors which may adversely affect our business.

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

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

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

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

MARKET RISK OF FINANCIAL INSTRUMENTS

The principal financial instrument risks to which the Company is exposed are fluctuations in foreign currency rates and interest rates. The Company utilizes certain derivative instruments to enhance its ability to manage risk. Derivative instruments are entered into for periods consistent with related underlying exposures and do not constitute positions that are independent of those exposures. In addition, we do not enter into derivative instruments for speculative purposes, nor are we party to any leveraged derivative instrument.

Foreign Exchange Sensitivity

Due to the nature of the Company's global operations, we are involved in transactions that are denominated in currencies other than the U.S. dollar, which creates exposure to currency exchange rate risk. The Company regularly utilizes foreign currency forward contracts to manage the volatility of certain intercompany and other transactions that are denominated in foreign currencies. These forward contracts are generally settled and renewed on a quarterly basis and do not meet specific hedge accounting requirements. Corresponding gains and losses have been recorded as a component of current operations, which offset gains and losses on the underlying transactions. As a result of our use of foreign currency exchange contracts, we recorded net losses totaling $0.3 million during fiscal 2002, net gains of $0.2 million during fiscal 2001, and net losses totaling $0.2 million during fiscal 2000.

All of our foreign currency exchange contracts were settled prior to August 31, 2002. However, the Company intends to continue utilizing foreign currency exchange contracts in future periods to offset potential foreign currency exchange risks.

Interest Rate Sensitivity

The Company is exposed to fluctuations in U.S. interest rates primarily as a result of the cash that we hold and our borrowing activities. Following payment and termination of our line of credit facility during fiscal 2002, our remaining debt balances consisted primarily of fixed-rate long-term mortgages on our buildings and property. The following table summarizes the Company's debt obligations at August 31, 2002. For presentation purposes, the reported interest rates represent weighted average rates, with the period end rate used for variable rate debt obligations (dollars in thousands).

	Maturity (Fiscal Year)					
Debt	2003	2004	2005	2006	2007	Thereafter
Fixed rate debt	$ 166	$ 83	$ 89	$ 96	$ 103	$1,046
Average interest rate	8.73%	7.32%	7.36%	7.40%	7.44%	7.57%
Variable rate debt	$ 23					
Average interest rate	5.25%					

At August 31, 2002, we were not party to any interest rate swap agreements or similar derivative instruments.

EURO CURRENCY CONVERSION

Since the beginning of the European Union's transition to its common currency, the Euro, on January 1, 1999 our foreign subsidiaries were able to generate billings and accept payments from clients in both the Euro and legacy currencies. The European legacy currencies remained legal tender through January 1, 2002. We did not experience a material impact on our consolidated financial position, results of operations, or cash flows resulting from the introduction of the Euro and the transition process from the legacy currencies.

Independent Auditors' Report

The Board of Directors and Shareholders
Franklin Covey Co.:

We have audited the accompanying consolidated balance sheets of Franklin Covey Co. and subsidiaries as of August 31, 2002 and 2001, and the related consolidated statements of operations and comprehensive loss, shareholders' equity, and cash flows for each of the years in the three year period ended August 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Franklin Covey Co. and subsidiaries as of August 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three year period ended August 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 4 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", in the year ended August 31, 2002.

KPMG LLP

Salt Lake City, Utah
November 19, 2002

Consolidated Balance Sheets

AUGUST 31,	2002	2001
In thousands, except per share data		
Assets		
Current assets:		
Cash and cash equivalents	$ 47,049	$ 14,864
Accounts receivable, less allowance for doubtful accounts of $1,802 and $1,799, respectively	21,117	26,639
Inventories	39,091	42,035
Income taxes receivable		1,411
Deferred income taxes		9,737
Prepaid expenses and other assets	13,482	14,973
Assets of discontinued operations		117,252
Total current assets	120,739	226,911
Property and equipment, net	75,928	103,715
Intangible assets, net	95,955	118,302
Goodwill, net		56,273
Investment in unconsolidated subsidiary	642	16,910
Other long-term assets	11,474	14,369
	$304,738	$536,480
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 12,718	$ 19,493
Accrued liabilities	39,069	39,984
Income taxes payable	14,904	
Current portion of long-term debt	189	11,574
Current portion of capital lease obligations		380
Liabilities of discontinued operations		35,525
Total current liabilities	66,880	106,956
Line of credit		35,576
Long-term debt, less current portion	1,417	49,527
Other liabilities	1,886	7,755
Deferred income taxes		26,784
Total liabilities	70,183	226,598
Commitments and contingencies (Notes 8, 9, 10, 11, 12, 14, 22, and 24)		
Shareholders' equity:		
Preferred stock – Series A, no par value; convertible into common stock at $14 per share; liquidation preference totaling $89,530 at August 31, 2002; 4,000 shares authorized, 873 shares and 831 shares issued, respectively	87,203	82,995
Common stock, $.05 par value; 40,000 shares authorized, 27,056 shares issued	1,353	1,353
Additional paid-in capital	222,953	223,898
Retained earnings	58,209	167,475
Notes and interest receivable related to financing common stock purchases by related parties, net	(12,362)	(35,977)
Accumulated other comprehensive loss	(280)	(4,681)
Treasury stock at cost, 7,089 and 7,215 shares, respectively	(122,521)	(124,395)
Accumulated other comprehensive loss from discontinued operations		(786)
Total shareholders' equity	234,555	309,882
	$304,738	$536,480

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations and Comprehensive Loss

YEAR ENDED AUGUST 31,	2002	2001	2000
In thousands, except per share data			
Net sales:			
Products	$ 221,641	$ 298,306	$ 363,182
Training and services	111,357	141,475	159,448
	332,998	439,781	522,630
Cost of sales (exclusive of stock option purchase costs totaling $2,113 in fiscal 2000):			
Products	110,791	144,391	185,517
Training and services	38,578	45,591	57,247
	149,369	189,982	242,764
Gross margin	183,629	249,799	279,866
Selling, general, and administrative (exclusive of stock option purchase and relocation costs totaling $9,114 in fiscal 2000)	216,910	224,458	230,353
Stock option purchases and relocation costs			11,227
Provision for losses on management stock loans	24,775	1,052	
Impairment of investment in unconsolidated subsidiary	16,323		
Loss on impaired assets	10,185	801	1,940
Restructuring cost reversals			(4,946)
Depreciation	33,342	27,441	25,517
Amortization	4,667	10,840	13,069
Income (loss) from operations	(122,573)	(14,793)	2,706
Equity in earnings of unconsolidated subsidiary	4,316	2,088	
Interest income	3,112	3,180	1,079
Interest expense	(2,784)	(7,671)	(5,537)
Loss on settlement of interest rate swap	(4,894)		
Other income (expense), net	644		(174)
Loss from continuing operations before income taxes	(122,179)	(17,196)	(1,926)
Benefit (provision) for income taxes	25,713	4,000	(5,546)
Loss from continuing operations	(96,466)	(13,196)	(7,472)
Income (loss) from discontinued operations, net of tax provision (benefit) totaling $(4,055), $4,267, and $4,416, respectively	(7,584)	2,113	3,063
Gain on sale of discontinued operations, net of tax provision totaling $35,094	64,851		
Loss before cumulative effect of accounting change	(39,199)	(11,083)	(4,409)
Cumulative effect of accounting change, net of tax benefit totaling $13,948	(61,386)		
Net loss	(100,585)	(11,083)	(4,409)
Preferred stock dividends	(8,681)	(8,153)	(8,005)
Net loss attributable to common shareholders	**$(109,266)**	**$ (19,236)**	**$ (12,414)**
Loss from continuing operations and preferred stock dividends per share:			
Basic and diluted	$ (5.29)	$ (1.06)	$ (.76)
Net loss attributable to common shareholders per share:			
Basic and diluted	$ (5.49)	$ (.95)	$ (.61)
Basic and diluted weighted average number of common and common equivalent shares	19,895	20,199	20,437

Comprehensive Loss:

	2002	2001	2000
Net loss attributable to common shareholders	$(109,266)	$ (19,236)	$ (12,414)
Market value of interest rate swap agreement, net of tax	2,786	(2,786)	
Foreign currency translation adjustments	574	(732)	660
Comprehensive loss	**$(105,906)**	**$ (22,754)**	**$ (11,754)**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

	Series A Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Notes and Interest Receivable	Deferred Compen-sation	Accumulated Other Compre-hensive Loss	Treasury Stock		Total Share-holders' Equity
	Shares	Amount	Shares	Amount						Shares	Amount	
In thousands												
Balance at August 31, 1999	750	$75,000	27,056	$1,353	$235,632	$199,125	$	$(320)	$(782)	(6,676)	$(131,574)	$378,434
Issuance of Series A preferred stock	42	4,092										4,092
Preferred stock dividends						(8,005)						(8,005)
Tax benefit from exercise of affiliate stock options					557							557
Issuance of common stock from treasury					(10,441)					925	17,404	6,963
Purchase of treasury shares										(688)	(5,482)	(5,482)
Issuance of note receivable from sale of common stock							(894)					(894)
Deferred compensation								262				262
Cumulative translation adjustment									660			660
Dividends on Series A preferred stock paid with additional shares of Series A preferred stock	19	1,875										1,875
Net loss						(4,409)						(4,409)
Balance at August 31, 2000	811	80,967	27,056	1,353	225,748	186,711	(894)	(58)	(122)	(6,439)	(119,652)	374,053
Preferred stock dividends						(8,153)						(8,153)
Tax benefit from exercise of affiliate stock options					25							25
Issuance of common stock from treasury					(1,875)					165	2,712	837
Purchase of treasury shares										(941)	(7,455)	(7,455)
Deferred compensation								58				58
Cumulative translation adjustment									(732)			(732)
Purchase of notes receivable and accrued interest receivable related to purchases of common stock by related parties, net							(35,083)					(35,083)
Dividends on Series A preferred stock paid with additional shares of Series A preferred stock	20	2,028										2,028
Valuation of derivative financial instrument									(4,613)			(4,613)
Net loss						(11,083)						(11,083)
Balance at August 31, 2001	831	82,995	27,056	1,353	223,898	167,475	(35,977)		(5,467)	(7,215)	(124,395)	309,882
Preferred stock dividends						(8,681)						(8,681)
Issuance of common stock from treasury					(1,445)					151	1,947	502
Purchase of treasury shares										(25)	(73)	(73)
Cumulative translation adjustment									574			574
Dividends on Series A preferred stock paid with additional shares of Series A preferred stock	42	4,208										4,208
Additions to reserve for management loan losses							24,775					24,775
Interest on participant loans							(1,160)					(1,160)
Settlement of interest rate swap									4,613			4,613
CEO compensation contribution					500							500
Net loss						(100,585)						(100,585)
Balance at August 31, 2002	873	$87,203	27,056	$1,353	$222,953	$ 58,209	$(12,362)	$ –	$(280)	(7,089)	$(122,521)	$234,555

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

YEAR ENDED AUGUST 31,	2002	2001	2000
In thousands			
Cash Flows From Operating Activities:			
Net loss	$(100,585)	$(11,083)	$ (4,409)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:			
Depreciation and amortization	42,052	47,873	48,805
Gain on sale of discontinued operations, net of tax	(64,851)		
Cumulative effect of accounting change, net of tax	61,386		
Provision for losses on management stock loan program	24,775	1,052	
Impairment of investment in unconsolidated subsidiary	16,323		
Deferred income taxes	(16,152)	637	1,562
Loss on impaired assets	10,185	801	1,940
Loss on settlement of interest rate swap	4,894		
Equity in earnings of unconsolidated subsidiary	(4,316)	(2,088)	
Payments for interest on management loan program	(796)	(2,229)	
Other	160	58	262
Changes in assets and liabilities, net of effects from acquisitions:			
Decrease in accounts receivable, net	51,124	5,610	4,639
Decrease in inventories	3,413	8,303	3,943
Increase in other assets	(4,167)	(1,151)	(13,282)
Increase (decrease) in accounts payable and accrued liabilities	(19,579)	(10,814)	5,804
Decrease in accrued restructuring costs	(582)	(2,648)	(11,040)
Increase (decrease) in other long-term liabilities	(1,256)	(144)	3,286
Increase (decrease) in income taxes payable	(9,049)	(1,811)	9,113
Net cash provided by (used for) operating activities	**(7,021)**	**32,366**	**50,623**
Cash Flows From Investing Activities:			
Proceeds from sale of discontinued operations	156,512		
Purchases of property and equipment, net of effects from acquisitions	(10,594)	(27,027)	(24,523)
Formation of joint venture, acquisition of businesses, and earnout payments		(4,432)	(21,444)
Cash distribution of earnings from unconsolidated subsidiary	4,261	3,354	
Proceeds from sale of property and equipment, net	2,327	15,096	7,032
Net cash provided by (used for) investing activities	**152,506**	**(13,009)**	**(38,935)**
Cash Flows From Financing Activities:			
Proceeds from short-term line of credit borrowings		12,388	21,061
Principal payments on short-term line of credit borrowings	(9,750)	(20,522)	(4,573)
Proceeds from long-term debt and line of credit, net of effects from acquisitions	4,370	33,951	76,308
Principal payments on long-term debt, long-term line of credit, and capital lease obligations	(99,661)	(38,323)	(109,502)
Payment of interest rate swap liability	(4,894)		
Purchases of common stock for treasury	(73)	(7,455)	(5,483)
Proceeds from issuance of common stock from treasury	502	1,042	6,069
Proceeds from issuance of Series A Preferred Stock, net			4,092
Payment of preferred stock dividends	(4,367)	(6,084)	(5,977)
Net cash used for financing activities	**(113,873)**	**(25,003)**	**(18,005)**
Effect of foreign currency exchange rates on cash and cash equivalents	573	(732)	778
Net increase (decrease) in cash and cash equivalents	32,185	(6,378)	(5,539)
Cash and cash equivalents at beginning of the year	14,864	21,242	26,781
Cash and cash equivalents at end of the year	**$ 47,049**	**$ 14,864**	**$ 21,242**

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”, “we”, “our”) provides integrated training and performance enhancement solutions to organizations and individuals in productivity, leadership, sales, communication, and other areas. Each integrated solution may include components for training and consulting, assessment, and other application tools that are generally available in electronic or paper-based formats. Our products and services are available through professional consulting services, public workshops, retail stores, catalogs, and the Internet at www.franklincovey.com. The Company’s best-known offerings include the Franklin Planner™, our productivity workshop entitled “What Matters Most”, and courses based on the best-selling book, *The 7 Habits of Highly Effective People.*

Fiscal Year

The Company utilizes a modified 52/53 week fiscal year that ends on August 31 of each year. Corresponding quarterly periods generally consist of 13-week periods that ended on November 24, 2001, February 23, 2002, and May 25, 2002 during fiscal 2002. Unless otherwise noted, references to fiscal 2003, fiscal 2002, fiscal 2001, and fiscal 2000 apply to the 12 months ending or ended on August 31, 2003, 2002, 2001, and 2000, respectively.

Basis of Presentation

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

The results of Franklin Covey Coaching, LLC, a 50 percent owned joint venture (Note 5), were accounted for using the equity method in the accompanying consolidated financial statements.

Due to the discontinued operations presentation resulting from (1) the sale of Premier Agendas (“Premier”), and (2) the termination of franklinplanner.com’s operations, the fiscal 2001 and fiscal 2000 presentations have been revised to be comparable to the fiscal 2002 presentation.

Pervasiveness of Estimates

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

Cash and 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, 2002, we had demand deposits at various banks in excess of the $100,000 limit for insurance by the Federal Deposit Insurance Corporation. Our cash equivalents totaled $28.2 million at August 31, 2002. We had no significant cash equivalents as of August 31, 2001.

Trade Accounts Receivable

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

Inventories

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

Property and Equipment

Our property and equipment balances are stated at cost less accumulated depreciation or amortization. Depreciation and amortization, which includes the amortization of assets recorded under capital lease obligations, are generally calculated using the straight-line method over the expected useful lives of the assets as follows:

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

Leasehold improvements are amortized over the lesser of the useful economic life of the asset or the contracted lease period. We charge expenditures for maintenance and repairs to expense as incurred. Gains and losses resulting from the sale of property and equipment are recorded in current operations except for significant infrequent property sales, such as buildings and land, which are recorded as components of other income and expense.

Goodwill and Intangible Assets

On September 1, 2001, we adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." The provisions of SFAS No. 142 prohibit the amortization of goodwill and certain intangible assets that are deemed to have indefinite lives. Goodwill and indefinite-lived intangibles are required to be tested periodically for impairment and written down, if necessary. Amortized intangible assets are required to be tested for recoverability using undiscounted cash flows as prescribed by SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." In connection with the implementation of SFAS No. 142, the Company recognized a $61.4 million, net of tax, impairment charge to operations that has been recorded as a cumulative effect of accounting change in our consolidated statement of operations for fiscal 2002. For further information regarding our goodwill and other intangible assets, refer to Note 4.

Prior to the adoption of SFAS No. 142, goodwill, which represents the excess of purchase price over the fair value of net assets acquired, was amortized on a straight-line basis over the expected periods to be benefited, not to exceed 40 years. Goodwill was previously assessed for recoverability by determining whether the amortization of the goodwill balance over its remaining life could be recovered through the undiscounted future operating cash flows of the acquired entity. The amount of goodwill impairment, if any, was measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds.

Long-Lived Assets

During fiscal 2002, we adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Accordingly, we review our long-lived assets, such as property and equipment and definite-lived intangibles subject to amortization, for impairment whenever events or changes in circumstances may indicate that the carrying value of an asset may not be recoverable. As required by SFAS No. 144, we use an estimate of the future undiscounted net cash flows of the related asset or group of assets over their remaining lives in measuring whether the assets are recoverable. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount exceeds the estimated fair value of the asset. Impairment of long-lived assets is assessed at the lowest levels for which there are identifiable cash flows that are independent of other groups of assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less the estimated costs to sell. In addition, depreciation of the asset ceases. Losses on impaired assets are recorded as a separate component of operating expenses in our consolidated statements of operations.

Restricted Investments

Our restricted investments consist of investments in mutual funds that are held in a "rabbi trust" and are restricted for payment to the participants of the Company's deferred compensation plan (Note 17). We account for our restricted investments using SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." As required by this statement, we determine the proper classification of investments at the time of purchase and reassess such designations at each balance sheet date. At August 31, 2002 and 2001, our restricted investments were classified as trading securities and recorded as a component of other long-term assets in our consolidated balance sheets.

In accordance with SFAS No. 115, our unrealized losses on restricted investments, which were immaterial for fiscal years 2002, 2001, and 2000, were recognized in the accompanying consolidated statements of operations for fiscal years 2002, 2001, and 2000 as a component of selling, general, and administrative expense.

Accrued Liabilities

The significant components of our accrued liabilities from continuing operations were as follows for the periods indicated (in thousands):

AUGUST 31,	2002	2001
Accrued EDS outsourcing costs	$ 5,766	$ 2,817
Accrued compensation	5,253	5,949
Unearned revenue	3,899	4,250
Other accrued liabilities	24,151	26,968
	$39,069	$39,984

Foreign Currency Translation and Transactions

Translation adjustments result from translating our foreign subsidiaries' financial statements into United States dollars. The balance sheet accounts of our foreign subsidiaries were translated into U.S. dollars using the exchange rate in effect at the balance sheet date. Revenues and expenses were translated using average exchange rates during the year. The resulting translation gains or losses were recorded as a component of accumulated other comprehensive loss in shareholders' equity. Transaction gains and losses were reported in current operations.

Derivative Instruments

We account for derivative instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and as modified by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." During the normal course of business, the Company is exposed to risks associated with foreign currency exchange and interest rate fluctuations. In order to hedge our exposure to these elements, we have made limited use of derivative instruments. The fair value of each derivative that qualifies for hedge accounting is recognized in the balance sheet at its fair value. Changes in the fair value of derivative instruments that are not designated as hedge instruments are immediately recognized in our consolidated statements of operations. At August 31, 2002, the Company was not a party to any derivative instrument. For further information on our use of derivative instruments, refer to Note 10.

Revenue Recognition

We recognize product revenue when title and risk of loss are transferred to customers based upon terms of the sale, which is generally upon shipment or delivery of the product. We recognize training and service revenue upon presentation of the training seminar, delivery of consulting services, or shipment of training manuals. Revenue is recognized as the net amount to be received after deducting estimated amounts for discounts and product returns.

Shipping and Handling Fees and Costs

All shipping and handling fees billed to customers were recorded as a component of sales. All costs incurred related to shipping and handling of products or training services were recorded as a component of cost of sales.

Retail Store Pre-Opening Costs

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

Advertising Costs

Costs for newspaper, television, radio, and other advertising were expensed as incurred or recognized over the period of expected benefit for direct response and catalog advertising. Direct response advertising costs consist primarily of printing and mailing costs for catalogs and seminar mailers that were charged to expense over the period of projected benefit, which ranges from three to 12 months. Total advertising costs in continuing operations were $30.3 million, $31.9 million, and $36.2 million for the years ended August 31, 2002, 2001, and 2000, respectively. Our prepaid catalog and seminar mailer costs reported in other current assets were $5.4 million and $5.2 million at August 31, 2002 and 2001, respectively.

Research and Development Costs

The Company expenses research and development costs as incurred in accordance with generally accepted accounting principles in the United States. During fiscal 2002, 2001, and 2000, we expensed $4.9 million, $3.9 million, and $6.2 million, respectively, of research and development costs which were recorded as a component of selling, general, and administrative expenses in our 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 income taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred income taxes result from differences between the financial and tax bases of our assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted.

Based upon the weight of available evidence, and the nature and duration of various deferred tax assets, we determined that it is more likely than not that the related benefits from deferred tax deductions and foreign tax carryforwards will not be realized. Accordingly, we recorded the appropriate valuation allowances on our deferred tax assets during fiscal 2002.

Comprehensive Income/Loss

Comprehensive income/loss includes charges and credits to equity accounts that were not the result of transactions with shareholders. Comprehensive income/loss is comprised of net loss attributable to common shareholders and other comprehensive income/loss items. Our comprehensive income and losses consisted of changes in the fair value of derivative instruments and changes in the cumulative foreign currency translation adjustments. The changes in cumulative foreign currency translation adjustments were not adjusted for income taxes as they relate to specific indefinite investments in foreign subsidiaries.

Stock-Based Compensation

We account for stock-based compensation and awards using the intrinsic-value based method of accounting as outlined in Accounting Principles Board ("APB") Opinion 25 and related interpretations. Under the intrinsic-value methodology, no compensation cost is recognized for stock option awards granted at, or above, the fair market value of the stock on the date of grant. Restricted stock awards result in the recognition of deferred compensation, which was recorded as a reduction of shareholders' equity and was amortized to operating expense over the vesting period of the stock award. We amortized deferred stock compensation over the vesting period of each award using the straight-line method. At August 31, 2002, there were no remaining unamortized restricted stock awards. For further information on our stock-based compensation plans, refer to Note 13.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") released SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement addresses the accounting treatment for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The provisions of the statement apply to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, or normal operation of a long-lived asset. The statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company will adopt the provisions of SFAS No. 143 during fiscal 2003, but does not expect this statement to have an impact on our operations or financial position.

During June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement applies to costs associated with an exit activity, including restructuring activities, or with the disposal of long-lived assets. Exit activities can include eliminating or reducing product lines, terminating employees and related contracts, and relocating plant facilities or personnel. Under the provisions of SFAS No. 146, entities will be required to record a liability for a cost associated with an exit or disposal activity when that liability is incurred and can be measured at fair value. The provisions of SFAS No. 146 are effective for exit activities initiated after December 31, 2002. We have not completed our analysis of the provisions of SFAS No. 146, but we do not expect the guidelines found in this statement to have a material impact upon our operations or financial position.

2. INVENTORIES

Inventories of continuing operations were comprised of the following (in thousands):

AUGUST 31,	2002	2001
Finished goods	$30,615	$30,659
Work-in-process	1,141	1,507
Raw materials	7,335	9,869
	$39,091	**$42,035**

3. PROPERTY AND EQUIPMENT

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

AUGUST 31,	2002	2001
Land and improvements	$ 2,111	$ 4,982
Buildings	35,534	34,146
Machinery and equipment	32,912	35,220
Computer hardware and software	71,767	81,774
Furniture, fixtures, and leasehold improvements	57,487	58,166
	199,811	214,288
Less accumulated depreciation and amortization	(123,883)	(110,573)
	$ 75,928	$103,715

Certain land and buildings represent collateral for mortgage debt obligations (Note 8).

4. INTANGIBLE ASSETS AND GOODWILL

During June 2001, the FASB issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets." The new reporting provisions of SFAS No. 142 prohibit the amortization of goodwill and certain intangible assets that are deemed to have indefinite lives and requires such assets to be tested and written down to fair value, if necessary. The new standards also prescribe valuation procedures for intangible assets subject to amortization that are consistent with the guidelines found in SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." We elected to adopt the provisions of SFAS No. 141 and SFAS No. 142 during fiscal 2002.

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

AUGUST 31, 2002	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount of Intangibles
Amortized Intangible Assets:			
License rights	$ 27,000	$ (3,669)	$23,331
Curriculum	62,320	(22,853)	39,467
Customer lists	18,874	(8,799)	10,075
Trade names	1,277	(1,195)	82
	109,471	(36,516)	72,955
Unamortized Intangible Assets:			
Covey trade name	27,857	(4,857)	23,000
Balance at August 31, 2002	$137,328	$(41,373)	$95,955

AUGUST 31, 2001	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount of Intangibles
Amortized Intangible Assets:			
License rights	$ 27,000	$ (2,869)	$ 24,131
Curriculum	63,086	(20,962)	42,124
Customer lists	18,874	(7,784)	11,090
Trade names	1,277	(1,007)	270
	110,237	(32,622)	77,615
Unamortized Intangible Asset:			
Covey trade name	45,544	(4,857)	40,687
Balance at August 31, 2001	$155,781	$(37,479)	$118,302

Our aggregate amortization expense from continuing operations for the years ended August 31, 2002 and 2001 totaled $4.7 million and $10.8 million, respectively. Estimated amortization expense from continuing operations for the next five years is expected to be as follows (in thousands):

YEAR ENDING AUGUST 31,	
2003	$4,384
2004	4,011
2005	4,011
2006	3,188
2007	3,131

We review our amortized intangible assets for impairment whenever events or circumstances indicate that the carrying amount of the asset may not be realizable. We assess our amortized intangible assets using estimated future undiscounted cash flows as prescribed by SFAS No. 144.

We elected to adopt the provisions of SFAS No. 142 on September 1, 2001 and hired an independent valuation firm to assess the value of our goodwill and indefinite-lived intangibles in accordance with the new measurement requirements of SFAS No. 142. The valuation process assigned the Company's assets to our operating business units and then determined the fair market value of those assets using a discounted cash flow model that also considered factors such as market capitalization and the appraised values of certain assets. Based upon the results of the valuation, the goodwill assigned to the Organizational Strategic Business Unit, Consumer Strategic Business Unit, and corporate support group, plus a portion of the Covey trade name intangible asset were impaired. The resulting write-off from the adoption of SFAS No. 142 totaled $75.3 million ($61.4 after

applicable tax benefits). We also reduced the amortization period of certain amortized intangible assets in accordance with SFAS No. 142. The impairment loss was comprised of the following items (in thousands):

	Amount
Impaired goodwill	$61,682
Impaired Covey trade name intangible asset	13,652
Total SFAS No. 142 adoption impairment loss	$75,334

In connection with the adoption of SFAS No. 142, we recorded a $13.7 million impairment charge to the Covey trade name intangible, which has an indefinite life and is no longer amortized. As required by SFAS No. 142, the carrying amount of the Covey trade name was reassessed at August 31, 2002, and based upon the same valuation methodology used in the adoption of SFAS No. 142, an additional $4.0 million was impaired. The additional impairment was recorded as a component of loss on impaired assets (Note 15) in our consolidated statement of operations for the fiscal year ended August 31, 2002. The Covey trade name intangible asset was valued using the present value of estimated royalties derived from trade name related revenues, which consist primarily of training seminars and related items.

Goodwill and intangible assets assigned to the Education Business Unit, which consisted primarily of Premier, were not written down because the fair values of that business unit's assets exceeded their carrying amounts at the measurement date. The changes in the net carrying amount of goodwill for the year ended August 31, 2002 were as follows (in thousands):

	Organizations Strategic Business Unit	Consumer Strategic Business Unit	Corporate/ Education Business Unit
Balance at September 1, 2001	$45,684	$10,589	$44,368
Impairment loss from adoption of SFAS No. 142	(45,684)	(10,589)	(5,409)
Goodwill written off related to sale of Premier			(38,959)
Balance at August 31, 2002	$ –	$ –	$ –

If the provisions of SFAS No. 142 were in effect at September 1, 1999, and the adjustment was the same as in fiscal 2002, the following unaudited pro forma financial results would have occurred. Amounts presented below were adjusted to reflect Premier and franklinplanner.com as discontinued operations for comparability to amounts reported in the accompanying consolidated statement of operations for fiscal 2002 (in thousands).

FISCAL YEAR ENDED AUGUST 31, (Unaudited)	2002	2001	2000
Reported loss from continuing operations before income tax benefit	$(122,179)	$(17,196)	$(1,926)
Add back: Goodwill amortization		6,449	6,702
Add back: Indefinite-lived intangible amortization		1,139	1,139
Deduct: Revised estimated useful life amortization		(262)	(262)
Adjusted income (loss) from continuing operations before income tax benefit	(122,179)	(9,870)	5,653
Adjusted income tax benefit (provision)	25,713	1,641	(8,048)
Adjusted loss from continuing operations	(96,466)	(8,229)	(2,395)
Adjusted income (loss) from discontinued operations, net of tax	(7,584)	6,482	6,997
Gain on sale of discontinued operations, net of tax	64,851		
Adjusted net income (loss)	(39,199)	(1,747)	4,602
Preferred dividends	(8,681)	(8,153)	(8,005)
Net loss attributable to common shareholders	$(47,880)	$(9,900)	$(3,403)

FISCAL YEAR ENDED AUGUST 31, (Unaudited)	2002	2001	2000
Basic and Diluted Earnings per Share:			
Reported loss from continuing operations and preferred stock dividends	$ (5.29)	$ (1.06)	$ (.76)
Goodwill amortization		.32	.33
Indefinite-lived intangible amortization		.06	.05
Revised estimated useful life amortization		(.01)	(.01)
Income tax adjustment		(.12)	(.12)
Adjusted loss from continuing operations	(5.29)	(.81)	(.51)
Adjusted income (loss) from discontinued operations	(.38)	.32	.34
Gain on sale of discontinued operations, net of tax	3.26		
Adjusted net loss attributable to common shareholders	$ (2.41)	$ (.49)	$ (.17)
Basic and diluted weighted average number of common shares outstanding	19,895	20,199	20,437

The preceding unaudited pro forma schedules were adjusted to reflect applicable tax rates as though the provisions of SFAS No. 142 were effective September 1, 1999. Amortization expense excluded from discontinued operations under the provisions of SFAS No. 142 totaled $5.4 million and $4.8 million in fiscal 2001 and 2000. The adjusted discontinued operations tax provisions were $5.3 million and $5.2 million for fiscal 2001 and 2000, respectively.

5. INVESTMENT IN UNCONSOLIDATED SUBSIDIARY

Effective September 1, 2000, we entered into a joint venture agreement with American Marketing Systems ("AMS") to form Franklin Covey Coaching, LLC ("FCC"). Each partner owned 50 percent of the joint venture and participated equally in its management. We accounted for our investment in FCC using the equity method of accounting and reported our share of the joint venture's net income as equity in the earnings of an unconsolidated subsidiary in our consolidated financial statements. The Company's share of FCC's earnings totaled $4.3 million and $2.1 million for the fiscal years ended August 31, 2002 and 2001, respectively. Summarized financial information for FCC as of and for the years ended August 31, 2002 and 2001 was as follows (in thousands):

AUGUST 31,	2002	2001
Net sales	$26,392	$21,591
Gross profit	18,331	14,192
Net income	9,935	5,936
Current assets	$ 7,718	$ 5,296
Long-term assets	17,385	17,315
Total assets	$25,103	$22,611
Current liabilities	$ 8,626	$ 6,157
Long-term liabilities	67	174
Total liabilities	$ 8,693	$ 6,331
Members' equity	$16,410	$16,280

The joint venture agreement required the Company's coaching programs to achieve specified earnings thresholds beginning in fiscal 2002 (the joint venture agreement did not contain an earnings threshold requirement in fiscal 2001) or the existing joint venture agreement could be terminated at the option of AMS. Based upon available information, the Company's management believed that the required earnings threshold in fiscal 2002 could be reached through increased business from existing coaching programs and the creation of new programs. However, due to unfavorable economic conditions and other factors, the Company's coaching programs did not produce $3.2 million in earnings as required for fiscal 2002. As a result, AMS exercised its option to terminate the existing joint venture agreement effective August 31, 2002.

Based upon our coaching program performance throughout fiscal 2002, and expected termination of our interest in FCC, we recognized $16.3 million of impairment charges to our investment in FCC during the first two quarters of fiscal 2002. The impairment charges were based upon currently available information related to negotiations with AMS throughout fiscal 2002. Under the provisions of a new partnership agreement that eventually terminates our interest in FCC, we received a $0.3 million payment at the end of fiscal 2002, will receive payments totaling $2.0 million during fiscal 2003, and may receive an additional $1.2 million in payments from AMS and FCC. The new partnership agreement payments are comprised of the following three components:

Ownership Change Payment – On August 30, 2002, AMS paid the Company $0.3 million for our Class A ownership shares in FCC and issued Class B shares to us. The Class B ownership shares prohibit the Company from active participation in the management of FCC, but provide us the opportunity to receive a portion of FCC's earnings as described below.

FCC Net Income Recognition – During fiscal 2003, we will continue to recognize a portion of FCC's net income and receive cash distributions totaling $2.0 million. As the Company receives these payments during fiscal 2003, we will first reduce our remaining investment in FCC to zero and recognize the excess amount as an offset to operating expenses, rather than as equity in the earnings of an unconsolidated subsidiary. Based upon current operating trends at FCC, we anticipate receiving the entire $2.0 million of cash distribution payments during fiscal 2003.

Contingent Program Payment – The third component of the new partnership agreement is contingent upon the earnings of our coaching programs during fiscal 2003 and September 2003. If our coaching programs achieve earnings before interest, taxes, depreciation, and amortization ("EBITDA") greater than $1.2 million during the 13 month period ended September 30, 2003, then a final payment will be made in October 2003, for the entire contingent program payment. The contingent payment may not exceed $1.2 million, however, the contingent payment may be reduced on a dollar-for-dollar basis if our coaching programs fail to produce $1.2 million of EBITDA during the measurement period. We will record the contingent program payment receivable as a component of other current assets to the extent it is earned during the measurement period by our coaching program financial results.

Following receipt of the new partnership agreement payments, we will have no further profit participation in the earnings of FCC. As of August 31, 2002, our remaining net investment in Franklin Covey Coaching, LLC totaled $0.6 million.

6. CAPITALIZED COMPUTER SOFTWARE COSTS

In the normal course of business, we develop productivity and leadership training software products for sale to customers through our various distribution channels. We capitalize costs associated with the development of software products in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed" and related pronouncements. Capitalized computer software development costs totaled $3.8 million and $3.6 million at August 31, 2002 and 2001, respectively. Capitalized computer software costs were recorded as a component of other long-term assets in our consolidated balance sheets.

Capitalized computer software costs are generally amortized based upon units sold, with a maximum useful life of two years from the software release date. We review our capitalized computer software costs for impairment whenever circumstances indicate that the carrying amount of the asset may not be realizable. We assess current product sales trends as well as estimates of future sales and corresponding undiscounted cash flows as prescribed by SFAS No. 144. Amortization of capitalized computer software costs is recorded as a component of cost of sales and impaired computer software costs were recorded as a separate component of operating expenses in the accompanying consolidated statements of operations. Total amortization expense and impairment charges were as follows for the periods indicated (in thousands):

FISCAL YEAR ENDED AUGUST 31,	2002	2001	2000
Amortization expense	$1,678	$1,117	$2,156
Impairment charges	1,758	801	1,940

Subsequent to the software product release date, costs for maintenance, including minor upgrades are expensed as incurred.

7. DISCONTINUED OPERATIONS

During fiscal 2002, we sold the operations of Premier Agendas and discontinued our on-line planning service offered at franklinplanner.com. Under the provisions of SFAS No. 144, these operations were classified as discontinued operations in our consolidated financial statements. The operating results of Premier and franklinplanner.com were recorded as discontinued operations, net of tax, in the accompanying consolidated statements of operations and consisted of the following (in thousands). The operating results of Premier during fiscal 2002 include results from September 1, 2001 through December 21, 2001, the closing date of the sale, a period during which Premier does not recognize significant sales. The operations of franklinplanner.com were discontinued during August 2002.

FISCAL YEAR ENDED AUGUST 31,	2002	2001	2000
Income (loss) from Premier operations, net of tax	$(5,844)	$5,190	$4,486
Loss from franklin-planner.com operations, net of tax	(1,740)	(3,077)	(1,423)
Income (loss) from discontinued operations	$(7,584)	$2,113	$3,063

The income tax provision (benefit) attributable to Premier and franklinplanner.com operations was as follows for the periods indicated (in thousands):

FISCAL YEAR ENDED AUGUST 31,	2002	2001	2000
Tax provision (benefit) from Premier Agendas	$(3,033)	$6,074	$5,251
Tax benefits from Franklinplanner.com operations	(1,022)	(1,807)	(835)
Tax provision (benefit) from discontinued operations	$(4,055)	$4,267	$4,416

The carrying amounts of assets and liabilities for Premier and franklinplanner.com, which were disclosed as discontinued operations in our consolidated balance sheet at August 31, 2001, were as follows (in thousands):

Description	Premier Agendas	franklin-planner.com	Total
Accounts receivable, net	$ 52,188		$ 52,188
Inventories	3,138		3,138
Other current assets	2,091	$ 12	2,103
Property and equipment, net	6,866	1,727	8,593
Intangible assets, net	6,266	596	6,862
Goodwill, net	38,959	5,409	44,368
Total assets of discontinued operations	$109,508	$7,744	$117,252
Line of credit	$ 9,750		$ 9,750
Accounts payable	7,178		7,178
Current portion of long-term debt and capital lease obligations	1,720		1,720
Income taxes payable	4,219		4,219
Other current liabilities	8,005	$ 182	8,187
Long-term debt, less current portion	413		413
Deferred income taxes	4,058		4,058
Total liabilities of discontinued operations	$ 35,343	$ 182	$ 35,525
Cumulative translation adjustment	$ (786)	$ –	$ (786)

Additional information regarding the sale of Premier Agendas and the termination of franklinplanner.com is provided below.

Sale of Premier Agendas

Effective December 21, 2001, we sold Premier Agendas, Inc., a wholly owned subsidiary located in Bellingham, Washington, and Premier School Agendas Ltd., a wholly owned subsidiary organized in Ontario, Canada, (collectively, “Premier”) to School Specialty, Inc., a Wisconsin-based company that specializes in providing products and services to students and schools. Premier provided productivity and leadership solutions to the educational industry, including student and teacher planners. The sale price was $152.5 million in cash plus the retention of Premier’s working capital, which was received in the form of a $4.0 million promissory note from the purchaser. Prior to the sale closing, we received cash distributions from Premier’s working capital that totaled approximately $7.0 million. The Company

received full payment on the promissory note plus accrued interest during June 2002. Additionally, we will receive $0.8 million of cash from Premier related to estimated income tax payments and tax benefits from net operating losses. The Company has agreed not to sell student planners containing the Company's "7 Habits" and "What Matters Most" content directly to schools and school districts in the K through 12 market subsequent to the closing. We recognized a pretax gain of $99.9 million ($64.9 million after applicable taxes) on the sale of Premier, which was recorded as a gain on the sale of discontinued operations in the consolidated statement of operations for fiscal 2002. As part of the sale of Premier, the Company retained responsibility for certain outstanding legal claims against Premier, which were settled subsequent to August 31, 2002 (Note 11).

The operating results of Premier were historically included in the education segment for segment reporting purposes (Note 21). The Company recorded the following operating results for Premier for the periods indicated (in thousands):

FISCAL YEAR ENDED AUGUST 31,	2002	2001	2000
Sales	$5,329	$85,438	$79,985
Pretax income (loss)	(8,877)	11,264	9,737

Under terms of the Company's then-existing credit facilities, we used $92.3 million of the proceeds from the sale of Premier to pay off and terminate our term loan and revolving credit line (Note 8).

Termination of franklinplanner.com

During the fourth quarter of fiscal 2002, we discontinued the on-line planning services provided at franklinplanner.com. The Company acquired franklinplanner.com during fiscal 2000 and we intended to sell on-line planning as a component of our productivity solution for both organizations and individuals. However, due to competitors that offered on-line planning at no charge and other related factors, the Company was not able to produce a profitable business plan for the operations of franklinplanner.com. Although we were unable to generate revenue from the on-line planning services available at franklinplanner.com, we considered an on-line planning tool an essential component of our overall product offerings and continued to operate franklinplanner.com during fiscal 2001 and fiscal 2002. However, due to operating results recorded during fiscal 2002, and the need to reduce operating expenses, combined with new technology product offerings, franklinplanner.com was terminated during late fiscal 2002.

The operating results of franklinplanner.com were historically included as a component of corporate expenses for segment reporting purposes (Note 21). The Company recorded the following operating results for franklinplanner.com during the periods indicated (in thousands):

FISCAL YEAR ENDED AUGUST 31,	2002	2001	2000
Sales	$ none	$ none	$ none
Pretax loss	(2,762)	(4,884)	(2,258)

8. DEBT

As required by the terms of our credit agreement that was obtained during fiscal 2001, we used $92.3 million of the proceeds from the sale of Premier (Note 7) to pay all amounts outstanding on our existing term loan and line of credit agreements. As a result of this prepayment, the existing line of credit agreement was terminated and the Company has not sought to obtain a new credit agreement. Following the payment and termination of these debt instruments, our remaining debt consists primarily of long-term mortgages on our buildings and property.

Lines of Credit

As a result of the payment and termination of our line of credit agreement as described above, we did not have any outstanding line of credit debt at August 31, 2002. At August 31, 2001, we had $35.6 million outstanding on a $45.6 million long-term line of credit facility, which is included in the liabilities of continuing operations, and $9.8 million outstanding on a short-term line of credit through Premier, which is included in the liabilities of discontinued operations in our consolidated balance sheet for August 31, 2001. The weighted average interest rate on the short-term line of credit debt was 5.1 percent at August 31, 2001. The weighted average interest rate on the long-term line of credit facility was 6.4 percent as of August 31, 2001. Commitment fees associated with the lines of credit prior to their termination totaled $0.1 million during fiscal 2002.

Long-Term Debt

Our long-term debt in continuing operations was comprised of the following items (in thousands):

AUGUST 31,	2002	2001
Mortgage payable in monthly installments of $14 CDN, including interest at 5.75% through January 2015, secured by real estate	$ 855	907
Mortgage payable in monthly installments of $8 including interest at 9.9% through October 2014, secured by real estate	639	665
Note payable to bank, payable in quarterly installments of $44, including interest at 10%, through January 2003, secured by software	89	
Note payable to bank, payable in monthly installments of $23, plus interest at prime plus .5%, payable through September 2002, secured by real estate	23	305
Term note payable to bank, with interest at LIBOR plus 2.5%, secured by real estate, inventories, and receivables paid in full during December 2001		56,211
Note payable in annual installments of $3,000 plus interest at 8%, unsecured and paid in full during December 2001		3,000
Contract and license agreement payable in monthly installments of $7, paid in full during October 2001		13
	1,606	61,101
Less current portion	(189)	(11,574)
Long-term debt, less current portion	**$1,417**	**$49,527**

Future maturities of long-term debt at August 31, 2002 were as follows (in thousands):

YEAR ENDING AUGUST 31,	
2003	$ 189
2004	83
2005	89
2006	96
2007	103
Thereafter	1,046
	$1,606

9. LEASE OBLIGATIONS

Capital Leases

During fiscal 2002, we paid in full our remaining capital lease obligations. Our assets that were purchased through capital lease arrangements were comprised primarily of office furniture and equipment and had a total cost basis of $3.1 million and $4.0 million, with accumulated amortization of $2.2 million and $2.6 million at August 31, 2002 and 2001, respectively. Amortization of capital lease assets was included as a component of depreciation expense in our consolidated statements of operations.

Operating Leases

In the normal course of business, we lease retail store and office space under noncancelable operating lease agreements. The majority of our retail stores lease space in or around shopping centers or malls and other areas that generally have significant consumer traffic. We also rent office space, primarily for regional sales administration offices, in commercial office complexes that are conducive to administrative operations. These operating lease agreements generally contain renewal options that may be exercised at our discretion after completion of the base rental term. In addition, many of the rental agreements provide for regular increases to the base rental rate at specified intervals, which usually occurs on an annual basis. At August 31, 2002, our operating leases have remaining terms that range from one to fourteen years. The following table summarizes our future minimum lease payments under operating leases at August 31, 2002 (in thousands):

YEAR ENDING AUGUST 31,	
2003	$16,980
2004	14,915
2005	11,724
2006	8,255
2007	6,378
Thereafter	21,881
	$80,133

We recognize lease expense on a straight-line basis over the life of the lease agreement and contingent rent expense as it is incurred. Total rental expense in continuing operations for operating leases was $18.9 million, $18.5 million, and $16.5 million, for the years ended August 31, 2002, 2001, and 2000, respectively. Additionally, certain retail store leases contain terms that require additional, or contingent, rental payments based upon the realization of specified sales thresholds. Our contingent rental payments were insignificant during fiscal 2002 and totaled $0.4 million and $0.3 million during fiscal 2001 and fiscal 2000, respectively.

The Company exited certain leased office space in Provo, Utah during fiscal 2000. In connection with leaving the office space, we obtained a noncancelable sublease agreement for the majority of our remaining lease term on the buildings. The sublease agreement for the office space expires in March 2007 and contains renewal provisions that allow the subleasee to extend the sublease agreement, at its option, until March 2013, the date the original lease agreement terminates. As part of our restructuring accrual, the Company has reserved for the difference between our lease payments on the exited buildings and the payments to be received from the subleasee (Note 16). Future minimum lease payments due to the Company from the subleasee as of August 31, 2002 were as follows (in thousands):

YEAR ENDING AUGUST 31,	
2003	$1,901
2004	1,958
2005	2,017
2006	2,077
2007	1,232
	$9,185

Total sublease payments to the Company were $2.0 million, $2.2 million, and $0.6 million in fiscal 2002, fiscal 2001, and fiscal 2000, respectively. Sublease payments were recorded as reductions to selling, general, and administrative expenses in our consolidated statements of operations.

10. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The book value of our financial instruments approximates fair value. However, the fair values of our financial instruments were based on a variety of factors and assumptions. Accordingly, the fair values may not represent the actual values of the financial instruments that could have been realized as of August 31, 2002 or 2001, or that will be realized in the future and do not include expenses that could be incurred in an actual sale or settlement. The following methods and assumptions were used to determine the fair values of our financial instruments, none of which were held for trading or speculative purposes:

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

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

Other Assets – Our other assets, including the investment in an unconsolidated subsidiary and notes receivable, were recorded at the net realizable value of estimated future cash flows from these instruments.

Debt – The fair values of our debt balances were estimated by using discounted cash flow analyses based upon market rates available to us for similar debt with the same remaining maturities. Debt balances at August 31, 2002 consisted primarily of mortgage debt on various buildings used by the Company. The majority of our debt at August 31, 2001 was comprised of variable-rate debt, which was paid in full during fiscal 2002.

Interest Rate Swap Agreement – The fair value of our interest rate swap agreement outstanding at August 31, 2001 was based upon quoted market prices and fair value information obtained from the third-party bank, which acted as counterparty to the agreement.

Derivative Instruments

During the normal course of business, we are exposed to interest rate and foreign currency exchange risks. To manage risks associated with interest rates and foreign currencies, we have made limited use of derivative financial instruments. Derivatives are financial instruments that derive their value from one or more underlying financial instruments. As a matter of policy, our derivative instruments are entered into for periods

consistent with related underlying exposures and do not constitute positions that are independent of those exposures. In addition, we do not enter into derivative contracts for trading or speculative purposes, nor are we party to any leveraged derivative instrument. The notional amounts of derivatives do not represent actual amounts exchanged by the parties to the instrument and, thus, are not a measure of the exposure to the Company through our use of derivatives. The Company enters into derivative agreements with highly rated counterparties and we do not expect to incur any losses resulting from non-performance by other parties.

Interest Rate Risk Management – Generally, under interest rate swaps, the Company agrees with a counterparty to exchange the difference between fixed-rate and floating-rate interest amounts calculated by reference to a contracted notional amount. When appropriate, we designate interest rate swap agreements as hedges of risks associated with specific assets, liabilities, or future commitments, and these contracts are monitored to determine whether the underlying agreements remain effective hedges. The interest rate differential on interest rate swaps is recognized as a component of interest expense or income over the term of the agreement. We do not make extensive use of interest rate swap agreements in the normal course of business.

In connection with our management stock loan program (Note 14), the Company entered into an interest rate swap agreement. As a result of the credit agreement obtained in fiscal 2001, the notes receivable from loan participants, corresponding debt, and interest rate swap agreement were recorded on the Company's consolidated balance sheet at August 31, 2001. Under terms of our then existing credit agreement, we were obligated to use a portion of the proceeds from the sale of Premier to retire all outstanding debt, including the amount related to the management common stock loan program. As a result of this transaction, the underlying obligation of the interest rate swap agreement was transformed from a hedge instrument to a speculative instrument, which we settled during the second quarter of fiscal 2002 for a payment of $4.9 million in cash. At August 31, 2001, the fair value of this agreement was a $4.6 million liability ($2.8 million net of tax), which was recorded as a component of other long-term liabilities and accumulated comprehensive loss in our consolidated balance sheet for fiscal 2001. The interest rate differential totaled $0.6 million during fiscal 2002 prior to settlement and totaled $0.1 million during fiscal 2001. The Company had no interest rate swap agreements or similar derivative contracts in place at August 31, 2002.

Foreign Currency Exposure – The Company has international operations and during the normal course of business we are exposed to foreign currency exchange risks as a result of transactions that are denominated in currencies other than the United States dollar. During fiscal 2002, we utilized foreign currency forward contracts to manage the volatility of certain intercompany financing transactions that are denominated in foreign currencies. Our foreign exchange contracts did not meet specific hedge accounting requirements and corresponding gains and losses were recorded as a component of current operations, which offset the gains and losses on the underlying transactions, in the accompanying consolidated statements of operations. As a result of our use of foreign currency exchange contracts, we recorded net losses totaling $0.3 million during fiscal 2002, net gains totaling $0.2 million during fiscal 2001, and net losses totaling $0.2 million during fiscal 2000. All of our foreign currency exchange contracts were settled prior to August 31, 2002. However, the Company intends to continue utilizing foreign currency exchange contracts in future periods to offset potential foreign currency exchange risks.

11. COMMITMENTS AND CONTINGENCIES

EDS Contract

During fiscal 2001, we entered into long-term outsourcing agreements with Electronic Data Systems ("EDS") to provide warehousing, distribution, information systems, and call center operations. Under terms of the outsourcing contracts and their amendments, EDS operates our primary call center, provides warehousing and distribution services, and supports the Company's information systems. The outsourcing agreements expire at various dates through 2017 and have required minimum payments totaling approximately $361.4 million, which are payable over the lives of the agreements. During fiscal 2002, we paid $33.6 million to EDS for services provided under terms of the outsourcing agreements. The following schedule summarizes our required minimum payments to EDS for outsourcing services over the lives of the agreements (in thousands):

YEAR ENDING AUGUST 31,	
2003	$ 31,298
2004	31,431
2005	31,428
2006	30,246
2007	28,919
Thereafter	208,031
	$361,353

Beginning in fiscal 2003, the warehouse, distribution, and call center components of the contract will, to the extent volumes exceed contractual minimums, be a variable charge, which will be based upon the number of actual transactions processed, such as boxes shipped and agent hours. Total payments to EDS may differ materially from required minimum payments if actual activity increases over the term of the agreements. The outsourcing contract also contains early termination provisions that we may exercise under certain conditions. However, in order to exercise the early termination provisions, the Company would have to pay specified penalties to EDS depending upon the circumstances of the contract termination.

Purchase Commitments

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

Legal Matters

As part of the sale of Premier Agendas (Note 7), the Company retained certain outstanding legal claims against Premier. Subsequent to August 31, 2002 we settled these outstanding claims for approximately $0.8 million, which increased the recorded gain from the sale of Premier as we had accrued $3.5 million for the potential liability related to these claims.

During fiscal 2002, the Company received a subpoena from the Securities and Exchange Commission ("SEC") seeking documents and information relating to our management stock loan program and previously announced, and withdrawn, tender offer. We have provided the documents and information requested by the SEC, including the testimony of our Chief Executive Officer and other key employees. The Company has cooperated, and will continue to cooperate, fully in providing requested information to the SEC. The SEC has stated that the formal inquiry is not an indication that the SEC has concluded that there has been a violation of any law or regulation. The Company believes that we have complied with the laws and regulations applicable to our management stock loan program and withdrawn tender offer.

Acquisition Earnout Payments

In connection with the acquisitions of Premier Agendas and our Personal Coaching Division in fiscal 1997, we were required to pay contingent earnout payments during fiscal 2001 and fiscal 2000 to the prior owners of these entities. The contingent earnout payments were based upon the achievement of specified earnings targets during the measurement period defined in the respective acquisition agreements. These contingent earnout payments were recorded as additions to the original purchase price after considering factors found in Emerging Issues Task Force ("EITF") Issue No. 95-8, "Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination." We considered factors involving terms of continuing employment of key personnel, since the earnout payments were not automatically forfeited upon termination of key management, factors involving reasons for contingent payment provisions, such as the relative value of the original purchase price to the value of the acquired entity, and factors regarding the formula for determining the contingent payment. Based upon these factors, the contingent earnout payments were recorded as additions to the original purchase price rather than compensation expense. The Company paid the following contingent earnout payments during the periods indicated (in thousands):

FISCAL YEAR ENDED AUGUST 31,	2001	2000
Personal Coaching	$1,903	$5,200
Premier Agendas		10,853
Total contingent earnout payments	$1,903	$16,053

Contingent earnout payments were recorded as goodwill when paid and were being amortized over the remaining life of the original purchased goodwill prior to the adoption of SFAS No. 142. At August 31, 2002, the Company had no non-compensatory contingent earnout liabilities.

12. RELATED PARTY TRANSACTIONS

For fiscal 2002, our Chief Executive Officer ("CEO") decided to forgo his salary, which totaled $0.5 million. In accordance with SEC reporting rules, we recorded compensation expense for the unpaid salary and recorded a corresponding increase to additional paid-in capital.

The Company pays both Vice-Chairmen of the Board of Directors a percentage of the proceeds received for seminars that are presented by them. During the fiscal years ended August 31, 2002, 2001, and 2000, we paid $1.9 million, $3.5 million, and $3.3 million, respectively, to the Vice-Chairmen for these seminar presentations.

The Company, under a long-term agreement, leases buildings from a partnership that is partially owned by a Vice-Chairman of the Board of Directors and certain officers of the Company. We paid rental expense to the partnership totaling $2.1 million for each of the fiscal years ended August 31, 2002, 2001, and 2000. These buildings are currently being subleased to a third party. For more information regarding these subleases, refer to Note 9.

As part of a preferred stock offering to a private investor, an affiliate of the investor, who was then a director of the Company, was named Chairman of the Board of Directors and CEO. In addition, two affiliates of the investor were appointed to the Board of Directors. In connection with the preferred stock offering, we pay an affiliate of the investor $400,000 each year for monitoring fees.

During fiscal 2002, the Company entered into a sabbatical and severance agreement with one of our officers who was also a member of our Board of Directors. The agreement provides for payments totaling $0.9 million through November 2004. The compensation cost of this agreement was expensed in current operations during the year ended August 31, 2002, as the Company will receive no benefit or future services for the payments.

During fiscal 2002, we entered into a consulting agreement with a member of our Board of Directors to assist the Company with various projects and transactions, such as the sale of Premier and new product offerings. Under terms of the consulting agreement, we paid $0.2 million for services provided to the Company in fiscal 2002. The consulting agreement expires in December 2003.

The Company has licensed certain intellectual property to a company in which a Vice-Chairman of the Board of Directors is a principal shareholder. No license payments were required to be paid to the Company during fiscal 2002.

Premier, a subsidiary of the Company that was sold during fiscal 2002, had trade accounts payable to various companies that were partially owned by certain former owners of Premier totaling $0.5 million at August 31, 2001. In addition, Premier had notes payable to key employees and former key employees totaling $1.5 million as of August 31, 2001 (Note 7). The notes payable were used for working capital, were due upon demand, and had interest rates that approximated prevailing market rates. These payable amounts were included as a component of liabilities of discontinued operations in the accompanying August 31, 2001 consolidated balance sheet.

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

During fiscal 2000, we actively sought to reacquire outstanding options to purchase shares of our common stock. Included in the total number of option shares reacquired, the Company purchased options for 150,000 shares of common stock from a Vice-Chairman of the Board of Directors for $0.4 million. In addition, 358,000 option shares were purchased from two officers and one former officer of the Company for a total of $0.8 million. These reacquired options were valued using the Black-Scholes option-pricing model, which was the same valuation methodology used by the Company to purchase other stock options during fiscal 2000 (Note 13).

During the fiscal year ended August 31, 2000, we purchased 9,000 shares of our common stock for $0.1 million in cash, from a Vice-Chairman of the Board of Directors. All shares were purchased at the existing fair market value on the dates of the transactions.

13. CAPITAL TRANSACTIONS

Preferred Stock

Series A. As of August 31, 2002, we had issued 873,460 shares of our Series A preferred stock. Series A preferred stock dividends accrue at an annual rate of 10.0 percent and were payable quarterly in cash or additional shares of Series A preferred stock, at the Company's option, until July 1, 2002 as allowed by the Series A preferred stock agreement. Subsequent to that date, all future Series A preferred stock dividends must be paid in cash. During fiscal 2002 and 2001, the Company issued 42,088 shares and 20,277 shares, respectively, of Series A preferred stock to existing preferred stock shareholders as payment for accrued Series A preferred dividends. All other Series A preferred dividend payments made during fiscal 2002 and 2001 were paid with cash. At August 31, 2002 and 2001, we had accrued $2.2 million and $2.1 million of Series A preferred dividends, which were included as a component of other accrued liabilities in our consolidated balance sheets. Our Series A preferred stock is convertible at any time into the Company's common stock at a conversion price of $14.00 per share and ranks senior to our common stock. Series A preferred stock shareholders generally have the same voting rights as common stock holders on an "as-converted" basis.

Series B. During fiscal 2002, our Board of Directors authorized 400,000 shares of Series B preferred stock. Series B preferred stock ranks junior to Series A preferred stock and ranks equivalent to common stock as to liquidation rights. Series B preferred stock has no voting rights, no preemptive or redemption rights, and has no dividend rights. Each share of Series B preferred stock may be converted into ten shares of our common stock subsequent to March 1, 2005. At August 31, 2002, no shares of Series B preferred stock have been issued.

Treasury Stock

We sold 151,388, 164,496, and 153,614 shares of our common stock held in treasury as a result of the exercise of incentive stock options and the issuance of shares under the Company's employee stock purchase plan for the fiscal years ended August 31, 2002, 2001, and 2000, respectively. These shares were sold for an aggregate total of $0.5 million, $1.0 million, and $1.0 million, and had a cost of approximately $1.9 million, $2.7 million, and $2.9 million, for the fiscal years ended August 31, 2002, 2001, and 2000, respectively. During fiscal 2000, we sold 650,000 shares of treasury stock for use in our management stock loan program (Note 14) for $5.1 million, which was our cost basis. Additionally during fiscal 2000, the Company sold 121,250 shares of our common stock held in treasury to a former CEO of the Company for $0.9 million. In consideration for the common stock, the Company received a non-recourse promissory note, due September 2003 (Note 12).

Through August 31, 2000, our Board of Directors had approved various plans for the purchase of up to 8,000,000 shares of the Company's common stock. Through November 25, 2000, we had purchased 7,705,000 shares of our common stock under these board-authorized plans. On December 1, 2000, our Board of Directors approved an additional plan to purchase up to $8.0 million of the Company's common stock. Through August 31, 2001, we purchased 888,000 shares for $7.1 million under the terms of this plan. In connection with these Board authorized purchase plans, the Company purchased an aggregate 900,000 shares for $7.2 million, and 688,000 shares for $5.5 million, during the fiscal years ended August 31, 2001 and 2000, respectively. No shares of our common stock were purchased during fiscal 2002 in connection with any Board authorized purchase plan. However, during fiscal 2002 and 2001, we purchased 25,000 shares and 41,000 shares of our common stock with a corresponding cost of $0.1 million and $0.3 million, respectively, for exclusive distribution to participants enrolled in our employee stock purchase plan.

Tax Benefit from Exercise of Affiliate Stock Options

During the fiscal years ended August 31, 2001 and 2000, certain employees exercised affiliate stock options (nonqualified stock options received from principal shareholders of the Company), which resulted in tax benefits to the Company of $25,000 and $0.6 million, respectively, which were recorded as increases to additional paid-in capital. There were no affiliate stock options exercised during fiscal 2002.

Stock Options

The Company's Board of Directors has approved an incentive stock option plan whereby options to purchase shares of common stock are issued to key employees at an exercise price not less than the fair market value of our 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 our Board of Directors. At August 31, 2002, we had approximately 855,000 shares available for grant under the current incentive stock option plan.

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

	Number of Options	Weighted Avg. Exercise Price
Outstanding at August 31, 1999	5,284,165	$19.10
Granted	354,685	7.59
Exercised	(22,334)	4.38
Repurchased	(3,294,476)	22.54
Forfeited	(574,033)	15.69
Outstanding at August 31, 2000	1,748,007	11.59
Granted:		
At market value	203,000	7.44
To the CEO	1,602,000	14.00
Exercised	(19,861)	5.97
Forfeited	(93,117)	9.31
Outstanding at August 31, 2001	3,440,029	12.56
Granted	101,000	4.93
Forfeited	(496,748)	10.58
Outstanding at August 31, 2002	3,044,281	$12.63

During fiscal 2001, the Company's shareholders ratified a Board approved employment agreement for our Chief Executive Officer ("CEO"). In connection with the employment agreement, the CEO was granted 1.6 million options to purchase shares of our common stock. The options will be fully exercisable on August 31, 2007, and will be exercisable prior to August 31, 2007 only upon the achievement of specified common stock prices ranging from $20.00 per share to $50.00 per share. The options can only be exercised while the executive is employed as our CEO or Chairman of the Board of Directors.

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

AUGUST 31,	2002	2001	2000
Exercisable options	1,019,457	1,039,672	757,656
Weighted average exercise price per share	$12.48	$13.27	$14.83

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

We apply the intrinsic method of accounting for stock options and other stock-based compensation plans. Accordingly, no compensation expense has been recognized for our stock option plans or employee stock purchase plan in our consolidated statements of operations. Had compensation cost for our stock option plans and employee stock purchase plan been determined in accordance with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," our net loss and corresponding loss per share would have been the pro forma amounts indicated below (in thousands, except per share data):

FISCAL YEAR ENDED AUGUST 31,	2002	2001	2000
Net loss attributable to common shareholders as reported	$(109,266)	$(19,236)	$(12,414)
Net loss attributable to common shareholders pro forma	(110,308)	(21,302)	(11,404)
Diluted loss per share as reported	(5.49)	(.95)	(.61)
Diluted loss per share pro forma	(5.89)	(1.10)	(.57)

The following information applies to our stock options outstanding at August 31, 2002:

- A total of 1,107,201 options outstanding have exercise prices between $2.78 and $11.83 per share, with a weighted average exercise price of $7.38 per share and a weighted average remaining contractual life of 6.7 years. At August 31, 2002, 700,627 of these options were exercisable.
- The 1,602,000 outstanding options granted to our CEO in connection with a Board and shareholder approved employment agreement have an exercise price of $14.00 per share, with a weighted average remaining contractual life of 8.0 years. At August 31, 2002, none of these options were exercisable.
- The remaining 335,080 options outstanding have exercise prices between $14.69 and $34.50 per share, with a weighted average exercise price of $22.30 per share and a weighted average remaining contractual life of 3.5 years. At August 31, 2002, 318,830 of these options were exercisable.

The weighted average fair value of options granted under our stock option plans during the fiscal year ended August 31, 2002 was $2.04 per share. During fiscal 2001, the weighted average fair value was $3.07 per share for options granted at the market price and $3.05 per share for options granted to the CEO. The weighted average fair value of options granted during fiscal 2000 was $3.03 per share.

The Black-Scholes option-pricing model was used to calculate the weighted average fair value of options granted using the following assumptions for grants in fiscal years 2002, 2001, and 2000:

FISCAL YEAR ENDED AUGUST 31,	2002	2001	2000
Dividend yield	None	None	None
Volatility	59.4%	55.3%	55.3%
Expected life (years)	2.8	6.9	4.4
Risk free rate of return	4.9%	5.7%	5.3%

The estimated fair value of options granted is subject to the assumptions made and if the assumptions were to change, the estimated fair value amounts could be significantly different. The weighted average fair value of stock options exercised during fiscal years 2001 and 2000 was $8.58 per share and $8.40 per share, respectively. No stock options were exercised during fiscal 2002.

14. MANAGEMENT COMMON STOCK LOAN PROGRAM

The Company is the creditor for a loan program that provided certain management personnel with the opportunity to purchase shares of our common stock by borrowing on a full-recourse basis from external lenders. The loan program closed during fiscal 2001 with 3,825,000 shares purchased for a total cost of $33.6 million, with the loans guaranteed by the Company. Although interest accrues against the participants over the life of the loans, no interest payments are due from participants until the loans mature in March 2005. As part of the credit agreement obtained in fiscal 2001 (Note 8), we acquired from the external lenders the notes receivable from the loan participants and recorded them as a reduction to shareholders' equity. As a result, the Company is now the creditor on these full-recourse notes from the participants of the loan program.

The Company utilizes a systematic methodology for determining the level of reserves that are appropriate for the management common stock loan program. A key factor considered by our methodology is the current market value of common stock held by the participants. Other factors considered by the methodology include: the liquid net worth of the participants; the risks of pursuing collection actions against key employees; the probability of sufficient participant repayment capability based upon proximity to the due date of the loans; and other business, economic, and participant factors which may have an impact on our ability to collect the loans. Additionally, the Company may not hold the participants' shares of stock as collateral due to certain laws and regulations.

Based upon our reserve methodology, we recorded increases to the loan loss reserve totaling $24.8 million during fiscal 2002. As of August 31, 2002 and 2001, the Company had aggregate loan loss reserves totaling $25.9 million and $1.1 million, respectively, which reduce notes and interest receivable from financing common stock purchases by related parties in our consolidated balance sheets. In addition, we ceased recording interest receivable and corresponding interest income on all participant loans during the quarter ended May 25, 2002. However, the loan participants remain liable for interest accrued over the full term of their loans, which is due when the loans mature in March 2005. At August 31, 2002, the participants' loans plus recorded accrued interest exceeded the value of the common stock held by the participants by $29.2 million. Should the value of the common stock continue to be insufficient to cover the loans outstanding during the loan term, our loan loss reserve methodology provides a basis to be fully reserved prior to the March 2005 loan maturity date. However, the inability of some or all participants to repay their loans would have a significant adverse impact upon the financial position and future cash flows of the Company.

The establishment of reserves for potential loan losses requires significant estimates and judgment by the Company's management, and these estimates and projections are subject to change as a result of various economic factors, most of which are not within our control. As a result, the reserve for management stock loan losses could fluctuate significantly in future periods.

15. LOSS ON IMPAIRED ASSETS

We regularly review our long-lived assets for circumstances or events that indicate an asset may not be realizable. Our losses on impaired assets consisted of the following for the periods indicated (in thousands):

FISCAL YEAR ENDED AUGUST 31,	2002	2001	2000
Covey trade name	$4,000		
Note receivable from sale of subsidiary	2,282		
Capitalized software development costs	1,758	$ 801	$1,940
Computer software	1,097		
Retail store assets	1,001		
Other	47		
	$10,185	$ 801	$1,940

As discussed in Note 4, we reassessed the carrying value of the Covey trade name, an indefinite-lived intangible asset, under the provisions of SFAS No. 142. Due to declining sales and estimated future sales associated with the Covey trade name, we recorded a $4.0 million impairment charge during the fourth quarter of fiscal 2002. The value of the Covey trade name will continue to be evaluated in future periods and may require further impairment charges.

The note receivable from the sale of a subsidiary became impaired when the purchaser declared bankruptcy during the second quarter of fiscal 2002. The note receivable was guaranteed by the parent company of the purchaser, however, the parent company also became insolvent during fiscal 2002 and the possibility of recovery on the note receivable appears remote.

We regularly review our property and equipment and capitalized computer software costs for impairment whenever circumstances indicate that the carrying amount of the asset may not be realizable. Based upon unfavorable sales trends and projected sales information, we recorded total impairment charges of $1.8 million for capitalized development costs related to software products that produced less-than-expected sales volume. During fiscal 2001 and 2000, we recorded $0.8 million and $1.9 million, respectively, of impairment charges for capitalized software development costs that were affected by similarly unfavorable sales trends and estimated sales projections. We also recorded a $1.1 million impairment charge related to a customer database management software application, which was developed and installed by an external company, and became obsolete when we selected a new database software provider.

As a result of projected negative cash flows at certain of our retail stores, we recorded impairment charges totaling $1.0 million to reduce the book values of the long-lived assets of these stores to their estimated net realizable value at August 31, 2002.

16. RESTRUCTURING COSTS

During the fourth quarter of fiscal 1999, our Board of Directors approved a plan to restructure the Company's operations, reduce our workforce, and formally exit the majority of our leased office space located in Provo, Utah. In connection with this restructuring plan, we recorded a restructuring charge totaling $16.3 million. Included in the restructuring charge were costs to provide severance and related benefits, as well as costs to formally exit the leased office space. This restructuring plan was substantially completed during fiscal 2000. The components of the remaining restructuring accrual, which is included in other accrued liabilities, are as follows (in thousands):

	Severance Costs	Leased Office Space Exit Costs	Total
Accrued restructuring costs at August 31, 2001	$ 301	$2,211	$2,512
Restructuring costs paid	(275)	(308)	(583)
Accrued restructuring costs at August 31, 2002	$ 26	$1,903	$1,929

At August 31, 2002, accrued severance costs consisted of expected remaining severance and benefit payments for terminated employees. Remaining accrued leased office space exit costs represent the difference between base rental charges and the offsetting expected sublease revenue receipts. The Company expects that the remaining restructuring accrual will be sufficient to complete our restructuring plan.

The severance cost accrual was established based upon estimates of factors such as expected time to find other employment, expected benefit payments, and severance payment type. However, primarily due to favorable economic conditions that decreased the average time necessary for terminated employees to find new employment, we reassessed our potential liability for remaining severance costs. Accordingly, the Company reduced the severance accrual during fiscal 2000 by $4.9 million to reflect the estimated remaining liability.

17. EMPLOYEE BENEFIT PLANS

Profit Sharing Plans

We have defined contribution profit sharing plans for our employees that qualify under Section 401(k) of the Internal Revenue Code. These plans provide retirement benefits for employees meeting minimum age and service requirements. Qualified participants may contribute up to 15 percent of their gross wages, subject to certain limitations. These plans also provide for matching contributions by the Company. The matching contributions from continuing operations that were expensed during the years ended August 31, 2002, 2001, and 2000, were $1.2 million, $1.5 million, and $1.7 million, respectively.

Employee Stock Purchase Plan

The Company has an employee stock purchase plan that offers qualified employees the opportunity to purchase shares of our common stock at a price equal to 85 percent of the fair market value of the common stock at the time of purchase. A total of 151,388, 144,035, and 142,327, shares were issued under this plan for the fiscal years ended August 31, 2002, 2001, and 2000, respectively. Shares available for issuance under this plan at August 31, 2002 were 579,015. The Company accounts for its employee stock purchase plan using the intrinsic method as defined in the provisions of APB Opinion 25 and related interpretations.

Deferred Compensation Plan

During fiscal 2000, we established a deferred compensation plan that provides certain key officers and employees the ability to defer a portion of their compensation until a later date. The Company incurred and expensed charges totaling $0.2 million, $0.2 million, and $0.1 million during the fiscal years ended August 31, 2002, 2001, and 2000, respectively, related to our deferred compensation plan. Deferred compensation amounts used to pay benefits are held in a "rabbi trust", which invests in various mutual funds and/or our common stock as directed by the plan participants. The trust assets are recorded in our consolidated balance sheets because such amounts are subject to the claims of the Company's creditors. The corresponding deferred compensation liability represents the amounts deferred by participants plus any earnings or minus any losses on the trust assets. The plan's assets totaled approximately $1.4 million and $3.1 million at August 31, 2002 and 2001, while plan liabilities totaled approximately $1.9 million and $3.1 million for the corresponding periods. The difference between plan assets and liabilities at August 31, 2002 was primarily due to disbursements of plan assets to participants that left the Company. The Company has paid these former participants and has recorded a $0.7 million receivable from the plan for these distributions. The assets and liabilities of the deferred compensation plan, including our receivable from the plan, were recorded as components of other long-term assets and other long-term liabilities, as appropriate, in the accompanying consolidated balance sheets.

18. INCOME TAXES

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

FISCAL YEAR ENDED AUGUST 31,	2002	2001	2000
Current:			
Federal	$21,982	$5,531	$(4,080)
State	2,434	533	(1,165)
Foreign	(1,027)	(1,545)	(1,655)
	23,389	4,519	(6,900)
Deferred:			
Federal	23,714	(421)	1,075
State	3,237	(98)	279
Valuation allowance	(24,627)		
	2,324	(519)	1,354
	$25,713	**$4,000**	**$(5,546)**

Allocation of the total tax benefit (provision) is as follows (in thousands):

FISCAL YEAR ENDED AUGUST 31,	2002	2001	2000
Continuing operations	$25,713	$4,000	$(5,546)
Discontinued operations	4,055	(4,267)	(4,416)
Gain on sale of discontinued operations	(35,094)		
Cumulative effect of change in accounting principle	13,948		
	$8,622	**$(267)**	**$(9,962)**
Comprehensive loss items:			
Tax effect from valuation of an interest rate swap agreement	**$(1,827)**	**$1,827**	**$ –**

Income (loss) from continuing operations before the benefit or provision for income taxes consisted of the following (in thousands):

FISCAL YEAR ENDED AUGUST 31,	2002	2001	2000
United States	$(124,191)	$(20,132)	$(1,492)
Foreign	2,012	2,936	(434)
	$(122,179)	**$(17,196)**	**$(1,926)**

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

FISCAL YEAR ENDED AUGUST 31,	2002	2001	2000
Federal statutory tax rate	35.0%	35.0%	(35.0)%
State income taxes, net of federal effect	3.0	1.6	29.9
Deferred tax valuation allowance	(18.2)		
Intangible asset amortization	(0.5)	(7.0)	111.6
Effect of foreign losses and tax rate differential	0.1	(1.2)	128.8
Other	1.6	(5.1)	52.6
	21.0%	**23.3%**	**287.9%**

Based upon the weight of available evidence, and the nature and duration of various deferred tax assets, we determined that it is more likely than not that the related benefits from deferred tax deductions and foreign tax carryforwards will not be realized. Accordingly, we recorded the appropriate valuation allowances on our deferred tax assets during fiscal 2002.

Intangible asset amortization consists of non-deductible amortization related to content and goodwill generated by the fiscal 1997 merger with Covey Leadership Center and certain other acquisitions.

During the fiscal year ended August 31, 2000, the effect of foreign losses is primarily comprised of losses sustained in Japan, Australia, and New Zealand for which no offsetting tax benefit could be recognized due to uncertainties related to future taxable income to offset such losses.

Other items include various non-deductible expenses, including certain meals, entertainment, and disallowed compensation 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 2001 and fiscal 2000.

Significant components of our deferred tax assets and liabilities of continuing operations were comprised of the following (in thousands):

AUGUST 31,	2002	2001
Deferred income tax assets:		
Loan loss reserve on management stock loans	$10,605	$ 419
Intangible asset amortization and impairment	6,483	
Impairment of investment in Franklin Covey Coaching	5,382	
Property and equipment depreciation	3,354	
Inventory and bad debt reserves	3,115	4,098
Foreign tax credit carryforward	2,450	
Sales returns and contingencies	1,588	2,676
Restructuring and severance cost accruals	1,411	975
Vacation and other accruals	829	1,498
Deferred compensation	722	1,340
Interest and inventory capitalization	485	463
Reserves related to discontinued operations	382	
Other	451	864
Total deferred income tax assets	37,257	12,333
Less: valuation allowance	(25,009)	
Net deferred income tax assets	12,248	12,333
Deferred income tax liabilities:		
Intangibles and property and equipment step-ups	(12,171)	(24,083)
Depreciation and amortization		(2,104)
Other	(77)	(3,193)
Total deferred income tax liabilities	(12,248)	(29,380)
Net deferred income tax liabilities	**$ –**	**$(17,047)**

The foreign tax credit carryforward generated during fiscal 2002, which totals $2.5 million, expires on August 31, 2007.

19. NET LOSS PER COMMON SHARE

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

FISCAL YEAR ENDED AUGUST 31,	2002	2001	2000
Loss from continuing operations	$ (96,466)	$(13,196)	$ (7,472)
Preferred stock dividends	(8,681)	(8,153)	(8,005)
Loss from continuing operations and preferred stock dividends	(105,147)	(21,349)	(15,477)
Income (loss) from discontinued operations, net of tax	(7,584)	2,113	3,063
Gain on sale of discontinued operations, net of tax	64,851		
Loss before cumulative effect of accounting change	(47,880)	(19,236)	(12,414)
Cumulative effect of accounting change, net of tax	(61,386)		
Net loss attributable to common shareholders	$(109,266)	$(19,236)	$(12,414)

FISCAL YEAR ENDED AUGUST 31,	2002	2001	2000
Loss from continuing operations and preferred stock dividends per share:			
Basic and Diluted	$ (5.29)	$ (1.06)	$ (.76)
Income (loss) from discontinued operations, net of tax, per share:			
Basic and Diluted	(.38)	.11	.15
Gain from sale of discontinued operations, net of tax, per share:			
Basic and Diluted	3.26		
Loss before cumulative effect of accounting change, net of tax, per share:			
Basic and Diluted	(2.41)	(.95)	(.61)
Cumulative effect of accounting change, net of tax, per share:			
Basic and Diluted	(3.08)		
Net loss attributable to common shareholders per share:			
Basic and Diluted	$ (5.49)	$ (.95)	$ (.61)
Basic and diluted weighted-average shares outstanding	19,895	20,199	20,437

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

FISCAL YEAR ENDED AUGUST 31,	2002	2001	2000
Number of preferred shares on an "as converted" basis	6,238,957	5,829,689	5,793,529
Common stock equivalents from the assumed exercise of stock options		55,692	82,144
Total antidilutive shares excluded from the EPS calculation	6,238,957	5,885,381	5,875,673

20. STATEMENTS OF CASH FLOWS

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

FISCAL YEAR ENDED AUGUST 31,	2002	2001	2000
Cash paid (received) for:			
Income taxes	$(4,599)	$1,140	$ (250)
Interest	3,901	5,927	7,353
Fair value of assets acquired	$ –	$4,432	$21,444
Cash paid for net assets	–	(4,432)	(21,444)
Liabilities assumed from acquisitions	$ –	$ –	$ –
Tax effect of exercise of affiliate stock options	$ –	$ 25	$ 557

Non-Cash Investing and Financing Activities

As of August 31, 2002, 2001, and 2000, we had accrued preferred dividends totaling $2.2 million, $2.1 million, and $2.0 million, respectively. Prior to July 1, 2002, the Company had the option to pay accrued dividends with cash or additional shares of preferred stock. As required by the Series A Preferred Stock agreement, subsequent to July 1, 2002, all accrued preferred dividends must be paid with cash. Payments for preferred stock dividends were as follows for the periods indicated (in thousands):

FISCAL YEAR ENDED AUGUST 31,	2002	2001	2000
Preferred stock dividends paid with cash	$4,367	$6,084	$5,977
Preferred stock dividends paid with additional shares of preferred stock	4,208	2,028	1,875
Total preferred stock dividends paid	$8,575	$8,112	$7,852

In connection with the credit agreement obtained during fiscal 2001 (Note 8), the Company acquired $33.6 million of notes receivable from the participants in the management common stock loan program, which loans were previously guaranteed by the Company. The corresponding liability was recorded as a component of long-term debt in our consolidated balance sheet for the fiscal year ended August 31, 2001. In addition, the Company established a reserve against the notes receivable and related interest receivable from the participants of the loan program and incurred charges to increase the reserve totaling $24.8 million and $1.1 million for the years ended August 31, 2002 and 2001, respectively.

On September 1, 2000, we contributed substantially all of the assets of our Personal Coaching division to Franklin Covey Coaching, LLC (Note 5), a joint venture formed to provide coaching services. The carrying value of the assets contributed to form Franklin Covey Coaching, LLC was $18.2 million, net of $0.3 million of cash contributed to the joint venture.

In connection with the acquisition of DayTracker.com (renamed franklinplanner.com) in December 1999 (Note 22), we issued $6.0 million of notes payable. The notes payable were due and payable in annual installments through December 2001.

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

At August 31, 2000, we had accrued $0.7 million for earnout payments in connection with the acquisition of certain entities.

21. SEGMENT INFORMATION

Reportable Segments

Due to the sale of Premier during fiscal 2002, we now have two reporting segments: the Consumer Strategic Business Unit ("CSBU") and the Organizational Strategic Business Unit ("OSBU"). The operating results of Premier and our other products and services designed for teachers and students were previously reported in the Education Business Unit, which was dissolved in the second quarter of fiscal 2002. Our remaining teacher and student programs and products are now classified in OSBU results of operations.

Consumer Strategic Business Unit – This business unit is focused on sales to individual customers and includes the operating results of our 173 domestic retail stores, 10 international stores, catalog and e-Commerce operations, and other related channels, including wholesale sales and manufacturing operations. Although CSBU sales primarily consist of products such as planners, binders, and handheld electronic planning devices, virtually any component of our leadership and productivity solutions can be purchased through CSBU channels.

Organizational Strategic Business Unit – The OSBU is primarily responsible for the development, marketing, sale, and delivery of productivity, leadership, sales performance, and communication training solutions directly to organizational clients, including other companies, the government, and educational institutions. The organizations business unit includes the financial results of the Organizational Solutions Group ("OSG") and our international operations, except for retail stores. The organizational sales group is responsible for the domestic sale and delivery of productivity, leadership, sales performance, and communication training solutions to corporations and includes sales of training seminars to teachers and students, which were previously reported with the operating results of Premier. The organizational sales group is also responsible for the sale of productivity solutions to wholesale customers and for consulting services that compliment our productivity and leadership training solutions. Our international operations are responsible for sales of training seminars and products outside the United States, including international catalog sales.

Our chief operating decision maker is the CEO. Each of the reportable segments has a president and chief operating officer who report directly to the CEO. The primary measurement tools we use in segment performance analysis are earnings before interest, taxes, depreciation, and amortization ("EBITDA") and free cash flows, which may not be calculated as similarly titled amounts presented by other companies. Our consolidated EBITDA can be calculated as gross margin less selling, general, and administrative expenses, stock option purchase and relocation costs, provision for losses on management stock loans, impairment of investment in unconsolidated subsidiary, loss on impaired assets, plus the reversal of restructuring costs in fiscal 2000 and the equity in earnings of an unconsolidated subsidiary.

The Company accounts for its segment information on the same basis as the accompanying consolidated financial statements. Prior year information has been revised in order to conform to fiscal 2002 classifications.

SEGMENT INFORMATION
(in thousands)

	Consumer Strategic Business Unit			Organizational Strategic Business Unit			Corporate, Adjustments and Eliminations	
YEAR ENDED AUGUST 31, 2002	Retail	Catalog/ e-Commerce	Other CSBU	OSG	International	Education	Corporate, Adjustments and Eliminations	Consolidated
Sales to external customers	$122,496	$ 63,291	$ 4,921	$ 97,519	$44,771			$332,998
Gross margin	62,207	35,620	(2,862)	61,986	26,678			183,629
EBITDA	1,288	6,480	(21,500)	(20,829)	6,499		$(52,186)	(80,248)
Significant non-cash items:								
Provision for losses on management loan program							24,775	24,775
Impairment of investment in unconsolidated subsidiary				16,323				16,323
Loss on impaired assets	1,001	1,425	3,093	4,619	47			10,185
Depreciation	10,180	3,593	2,303	2,006	1,389		13,871	33,342
Amortization				4,667				4,667
Discontinued operations, net of tax						$ (5,844)	(1,740)	(7,584)
Capital expenditures	2,573	4,039	140	445	1,149	98	2,150	10,594
Segment assets	30,989	2,894	12,779	102,307	22,702		133,067	304,738
YEAR ENDED AUGUST 31, 2001								
Sales to external customers	$156,299	$ 90,450	$ 7,881	$134,450	$50,701			$439,781
Gross margin	79,637	50,922	453	86,312	32,475			249,799
EBITDA	22,800	25,137	(17,121)	11,489	10,624		$(27,353)	25,576
Depreciation	8,424	867	2,804	1,838	879		12,629	27,441
Amortization	114		816	9,335	537		38	10,840
Significant non-cash items:								
Provision for losses on management loan program							1,052	1,052
Loss on impaired assets			201	500			100	801
Discontinued operations, net of tax						$ 5,190	(3,077)	2,113
Capital expenditures	15,996	1,346	2,179	2,538	1,689	2,166	1,113	27,027
Segment assets	36,867	1,307	30,542	185,576	24,094	109,508	148,586	536,480
YEAR ENDED AUGUST 31, 2000								
Sales to external customers	$163,304	$110,543	$27,919	$169,986	$50,878			$522,630
Gross margin	86,021	54,247	2,592	104,277	32,729			279,866
Stock option purchase and relocation costs							$ 11,227	11,227
EBITDA	39,840	25,049	(16,024)	27,639	2,080		(37,292)	41,292
Depreciation	6,304	293	4,467	1,349	890		12,214	25,517
Amortization	607	324	816	10,630	686		6	13,069
Discontinued operations, net of tax						$ 4,486	(1,423)	3,063
Significant non-cash items:								
Loss on impaired assets			33	1,907				1,940
Restructuring charge reversals							(4,946)	(4,946)
Capital expenditures	7,189	218	4,925	2,059	2,248	2,504	5,380	24,523
Segment assets	24,254	814	37,994	197,868	24,208	109,208	198,133	592,479

A reconciliation of reportable segment EBITDA to income (loss) from operations is presented below (in thousands):

FISCAL YEAR ENDED AUGUST 31,	2002	2001	2000
Reportable segment EBITDA	$ (28,062)	$ 52,929	$ 78,584
Stock option purchases and relocation costs			(11,227)
Provision for losses on management stock loans	(24,775)	(1,052)	
Restructuring costs			4,946
Corporate expenses	(27,411)	(26,301)	(31,011)
Consolidated EBITDA	(80,248)	25,576	41,292
Depreciation	(33,342)	(27,441)	(25,517)
Amortization	(4,667)	(10,840)	(13,069)
Interest income	3,112	3,180	1,079
Interest expense	(2,784)	(7,671)	(5,537)
Loss on interest rate swap agreement	(4,894)		
Other income (expense), net	644		(174)
Loss from continuing operations before income taxes	$(122,179)	$(17,196)	$ (1,926)

Interest expense and interest income are primarily generated at the corporate level and are not allocated to the reporting segments. Income taxes are likewise calculated and paid on a corporate level (except for entities that operate within foreign jurisdictions) and are not allocated to reportable segments. Due to the nature of stock option purchase and relocation costs, they were not charged to reportable segments during fiscal 2000.

Corporate assets such as cash, accounts receivable, and other assets are not generally allocated to reportable segments for business analysis purposes. However, inventories, goodwill, intangible assets, identifiable fixed assets, and certain other assets are classified by segment. In connection with the implementation of SFAS No. 142, intangible assets generated from the merger with Covey Leadership Center were assigned to the OSBU. The Covey goodwill and intangible assets were previously classified with corporate assets. A reconciliation of segment assets to consolidated assets is as follows (in thousands):

FISCAL YEAR ENDED AUGUST 31,	2002	2001	2000
Reportable segment assets of continuing operations	$171,671	$278,386	$285,138
Segment assets of discontinued operations:			
Premier Agendas		109,508	109,208
franklinplanner.com		7,744	8,567
Corporate assets	133,806	144,511	197,257
Intercompany accounts receivable	(739)	(3,669)	(7,691)
Consolidated assets	**$304,738**	**$536,480**	**$592,479**

Enterprise-Wide Information

Our revenues are derived primarily from the United States. However, we also operate direct offices or contract with licensees to provide products and services in various countries throughout the world. Our consolidated revenues and long-lived assets from continuing operations were as follows (in thousands):

FISCAL YEAR ENDED AUGUST 31,	2002	2001	2000
Sales:			
United States	$286,399	$387,924	$471,761
Americas	16,807	20,266	18,287
Japan/Greater China	14,640	16,567	14,585
Europe/Middle East	9,693	8,704	8,446
Australia	3,093	3,108	7,032
Others	2,366	3,212	2,519
	$332,998	**$439,781**	**$522,630**
Long-Lived Assets:			
United States	$177,842	$296,807	$323,975
Americas	3,174	5,297	1,927
Japan/Greater China	2,093	6,142	7,038
Europe/Middle East	650	396	503
Australia	240	926	1,146
	$183,999	**$309,568**	**$334,589**

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

22. ACQUISITION AND DIVESTING ACTIVITIES

Fiscal 2002

During the second quarter of fiscal 2002, we sold Premier Agendas, a wholly owned subsidiary located in Bellingham, Washington, and Premier School Agendas Ltd., a wholly owned subsidiary organized in Ontario, Canada, to School Specialty, Inc., a company that specializes in providing products and services to students and schools. The sale price was $152.5 million in cash plus the retention of Premier's working capital, which was received in the form of a $4.0 million promissory note from the purchaser. The Company received full payment on the promissory note plus accrued interest during June 2002. Prior to the sale closing, we also received cash distributions from Premier's working capital that totaled approximately $7.0 million. Additionally, we will receive $0.8 million of cash from Premier related to estimated income tax payments and tax benefits from net operating losses. Under terms of the sale agreement, the Company has agreed not to sell student planners containing the Company's "7 Habits" and "What Matters Most" content directly to schools and school districts in the K through 12 market subsequent to the sale closing. We recognized a pretax gain of $99.9 million ($64.9 million after applicable taxes) on the sale of Premier, which was recorded as a gain on the sale of discontinued operations in our consolidated statement of operations for fiscal 2002. For additional information related to the sale of Premier, refer to Note 7.

Effective September 1, 2000 (fiscal 2001), we entered into a joint venture agreement with American Marketing Systems to form Franklin Covey Coaching, LLC. The joint venture agreement required our coaching programs to achieve specified earnings thresholds beginning in fiscal 2002 (the joint venture agreement did not contain an earnings threshold requirement in fiscal 2001) or the joint venture agreement could be terminated at the option of AMS. Based upon available information, the Company's management believed that the required earnings threshold in fiscal 2002 could be reached through increased business from existing coaching programs and the creation of new programs. However, due to unfavorable economic conditions and other factors, the Company's coaching programs did not produce $3.2 million in earnings as required for fiscal 2002. As a result, AMS exercised its option to terminate the existing joint venture agreement effective August 31, 2002. Under the provisions of a new partnership agreement, we received a $0.3 million payment at the end of fiscal 2002, will receive payments totaling $2.0 million during fiscal 2003, and may receive an additional $1.2 million in payments from AMS and FCC. Further information on the operating performance and new partnership agreement related to Franklin Covey Coaching, LLC can be found in Note 5.

Fiscal 2001

During April 2001, we purchased the Project Consulting Group for $1.5 million in cash. The Project Consulting Group provides project consulting, project management, and project methodology training services. The purchase was accounted for using the purchase method of accounting and resulted in $1.5 million of goodwill and related intangible assets. All of the goodwill generated from this acquisition, which totaled $1.2 million, was written-off in connection with the adoption of SFAS No. 142.

Fiscal 2000

As of February 28, 2000, the Company sold the assets and substantially all of the business of its commercial printing division of Publishers Press. We retained the printing operations necessary for the production of our planners and other related products (now "Franklin Covey Printing"). The final sales price, after adjustments under terms of the purchase agreement, was $13.4 million and consisted of $11.0 million in cash and a $2.4 million note payable to the Company over five years. Our net cash proceeds from the sale totaled $6.4 million and we recognized a $0.3 million gain from the sale of these assets, which was included as a component of net other expense in our consolidated statement of operations for the fiscal year ended August 31, 2000. During the second quarter of fiscal 2002, the purchaser of the commercial division of Publishers' Press filed for bankruptcy. Although the note receivable was secured by the parent company of the purchaser, difficult conditions in the printing industry also left the parent company insolvent during fiscal 2002. Accordingly, we expensed $2.3 million of the remaining note receivable in fiscal 2002. The impairment charge was recorded as a component of loss on impaired assets in the accompanying consolidated statements of operations for the fiscal year ended August 31, 2002.

In December 1999, the Company purchased a majority interest in DayTracker.com (renamed franklinplanner.com), an on-line provider of scheduling and calendar services. The total purchase price was $11.0 million in cash and notes payable. The acquisition was accounted for using the purchase method of accounting and resulted in $9.0 million of goodwill and intangible assets that were being amortized on a straight-line basis over five years. However, during the fourth quarter of fiscal 2002, we discontinued the on-line planning services offered at franklinplanner.com and the results of operations for franklinplanner.com were included as discontinued operations in our consolidated financial statements. For further information regarding the termination of franklinplanner.com operations, refer to Note 7.

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 was a leading measurement assessment firm specializing in measuring the impact and return on investment of training and consulting programs. The acquisition was accounted for using the purchase method of accounting and resulted in $1.5 million of goodwill and intangible assets. All of the goodwill generated from this acquisition, which totaled $1.2 million, was written-off in connection with the adoption of SFAS No. 142 during fiscal 2002. The purchase agreement provides for bonus payments payable to Jack Phillips based upon the achievement of specified financial goals. At August 31, 2002 we had $0.5 million accrued for bonus payments to Jack Phillips. These bonus payments were expensed as earned and were not considered as additions to the purchase price of the Jack Phillips Group.

23. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The unaudited quarterly financial information included on page 30 of this report on Form 10-K is an integral part of the consolidated financial statements.

24. SUBSEQUENT EVENT

Subsequent to August 31, 2002, we purchased 20 percent of the common stock of Agilix Labs, Inc., a Delaware corporation, for payments totaling $1.0 million in cash. Agilix develops software applications for personal computers. The Company may, upon the achievement of specific objectives by Agilix, purchase another 10 percent of the common stock of Agilix Labs, Inc. for $0.5 million.

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, 2002 and 2001.

	High	Low
Fiscal Year Ended August 31, 2002:		
Fourth Quarter	$ 3.10	$ 1.95
Third Quarter	3.70	2.18
Second Quarter	6.30	3.10
First Quarter	7.00	2.04
Fiscal Year Ended August 31, 2001:		
Fourth Quarter	$ 7.40	$ 4.36
Third Quarter	8.75	6.16
Second Quarter	9.00	6.81
First Quarter	9.75	6.44

The Company did not pay or declare dividends on its common stock during the fiscal years ended August 31, 2002 and 2001. The Company currently anticipates that we will retain all available funds to finance our future growth and business expansion. The Company does not intend to pay cash dividends on our common stock in the foreseeable future.

As of November 22, 2002 the Company had 20,008,625 shares of its common stock outstanding, held by approximately 350 shareholders of record.

Item 6. Selected Financial Data

The information required by this Item is on page 2 of the Company's 2002 Annual Report to Shareholders.

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

The information required by this Item is reported on pages 20 through 36 of the Company's 2002 Annual Report to Shareholders.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

The information required by this Item is reported on pages 36 and 37 of the Company's 2002 Annual Report to Shareholders.

Item 8. Financial Statements and Supplementary Data

The information required by this Item is reported on pages 38 through 70 of the Company's 2002 Annual Report to Shareholders.

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

In June 2002, the Company dismissed its former independent auditors, Arthur Andersen LLP, and engaged KPMG LLP. Additional information regarding this change in auditors is contained in the Company's report on Form 8-K filed June 6, 2002 as amended on July 10, 2002 and in the company's definitive Proxy Statement for the annual meeting of shareholders scheduled to be held on January 24, 2003, under the caption "Selection of Auditor."

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 24, 2003. The definitive Proxy Statement will be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended.

Item 11. Executive Compensation

The information required by 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 24, 2003.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by the 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 24, 2003.

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 24, 2003.

Item 14. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of our disclosure controls and procedures (as defined in Securities Exchange Act of 1934 Rules 13a-14(c)) as of a date within 90 days before the filing date of this annual report on Form 10-K. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective, timely providing them with material information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934.

In October 2002, under the terms and conditions of our outsourcing agreements with EDS, we began; but have not yet completed, a significant transition of our warehouse, distribution, and call center computer systems owned and operated by EDS. Concurrently, we are also upgrading our primary finance and accounting software. We do not expect these changes to negatively impact the effectiveness of our disclosure controls and procedures.

(b) Changes in Internal Controls

There have not been any significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation. There were no significant deficiencies or material weaknesses, and therefore no corrective actions were taken.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) Documents Filed

1. *Financial Statements.* The consolidated financial statements of the Company and Independent Auditors' Report included in the Annual Report to Shareholders on Form 10-K for the year ended August 31, 2002, are as follows:

   Independent Auditors' Report

   Consolidated Balance Sheets at August 31, 2002 and 2001

   Consolidated Statements of Operations and Comprehensive Loss for the years ended August 31, 2002, 2001, and 2000

   Consolidated Statements of Shareholders' Equity for the years ended August 31, 2002, 2001 and 2000

   Consolidated Statements of Cash Flows for the years ended August 31, 2002, 2001 and 2000

   Notes to Consolidated Financial Statements

2. *Exhibit List.*

Exhibit No.	Exhibit	Incorporated by Reference	Filed Herewith
3.1	Revised Articles of Incorporation of the Registrant.	(1)	
3.2	Amended and Restated Bylaws of the Registrant.	(1)	
3.3	Articles of Amendment to Revised Articles of Incorporation of the Registrant (filed as Exhibit 2 to Schedule 13D).	(5)	
4.1	Specimen Certificate of the Registrant's Common Stock, par value $.05 per share.	(2)	
4.2	Stockholder Agreements, dated May 11, 1999 and June 2, 1999 (filed as Exhibits 1 and 3 to Schedule 13D).	(5)	
4.3	Registration Rights Agreement, dated June 2, 1999 (filed as Exhibit 4 to Schedule 13D).	(5)	
10.1	Amended and Restated 1992 Employee Stock Purchase Plan.	(3)	
10.2	First Amendment to Amended and Restated 1992 Stock Incentive Plan.	(4)	
10.3	Forms of Nonstatutory Stock Options.	(1)	
10.4	Amended and Restated 2000 Employee Stock Purchase Plan.	(6)	
10.5	Limited Liability Company Agreement of Franklin Covey Coaching LLC, dated September 1, 2000.	(7)	
10.6	Agreement for Information Technology Services between each of Franklin Covey Co., Electronic Data Systems Corporation and EDS Information Services LLC, dated April 1, 2001.	(8)	
10.7	Additional Services Addendum #1 to Agreement for Information Technology Services between each of Franklin Covey Co., Electronic Data Systems Corporation and EDS Information Services LLC, dated June 30, 2001.	(8)	

Exhibit No.	Exhibit	Incorporated by Reference	Filed Herewith
10.8	Amendment #2 to Agreement for Information Technology Services between each of Franklin Covey Co., Electronic Data Systems Corporation and EDS Information Services LLC, dated June 30, 2001.	(8)	
10.9	Purchase Agreement By and Among Franklin Covey Co., Franklin Covey Canada Ltd., School Specialty, Inc., and 3956831 Canada Inc., dated November 13, 2001.	(9)	
10.10	Amendment to Purchase Agreement By and Among Franklin Covey Co., Franklin Covey Canada Ltd., School Specialty, Inc., and 3956831 Canada Inc., dated December 2001.	(10)	
10.11	Schedule To Tender Offer Statement Under Section 14(D)(1) or 13(E)(1) of the Securities Exchange Act of 1934 for 7,333,333 shares of Franklin Covey Co. Common Stock at $6.00 per share, and related amendments (filed initially as Schedule TO-I with the Securities and Exchange Commission on November 26, 2001, with related amendments on Schedule TO-I/A on November 28, 2001 and December 24, 2001).	(10)	
10.12	Amended and Restated Limited Liability Company Agreement of Franklin Covey Coaching, LLC.		**
10.13	Consulting Agreement with Krisak and Company.		**
10.14	Sabbatical and Severance Agreement with Stephen M. R. Covey.		**
21	Subsidiaries of the Registrant.		**
23	Consent of Independent Auditors.		**
99.1	Section 906 Certificates.		**
99.2	Report of KPMG LLP, Independent Auditors, on Consolidated Financial Statement Schedule for the years ended August 31, 2002, 2001, and 2000.		**
99.3	Valuation and Qualifying Accounts and Reserves. Financial statement schedules other than the one identified above are omitted for the reason that they are not required or are not applicable, or the required information is shown in the consolidated financial statements or notes thereto, or contained in this report.		**

(1) Incorporated by reference to Registration Statement on Form S-1 filed with the Commission on April 17, 1992, Registration No. 33-47283.
(2) Incorporated by reference to Amendment No. 1 to Registration Statement on Form S-1 filed with the Commission on May 26, 1992, Registration No. 33-47283
(3) Incorporated by reference to Report on Form 10-K filed November 27, 1992, for the year ended August 31, 1992.
(4) Incorporated by reference to Registration Statement on Form S-1 filed with the Commission on January 3, 1994, Registration No. 33-73728.
(5) Incorporated by reference to Schedule 13D (CUSIP No. 534691090 as filed with the Commission on June 2, 1999).
(6) Incorporated by reference to Report on Form S-8 filed with the Commission on May 31, 2000, Registration No. 333-38172.
(7) Incorporated by reference to Report on Form 10-K filed November 29, 2000, for the year ended August 31, 2000.
(8) Incorporated by reference to Report on Form 10-Q filed July 10, 2001, for the quarter ended May 26, 2001.
(9) Incorporated by reference to Report on Form 10-K filed November 29, 2001, for the year ended August 31, 2001.
(10) Incorporated by reference to Report on Form 10-Q filed January 10, 2002, for the quarter ended November 24, 2001.
** Filed herewith and attached to this report.

(b) Reports on Form 8-K
None.

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

(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 25, 2002.

FRANKLIN COVEY CO.

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

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

Signature	Title	Date
/s/ ROBERT WHITMAN Robert A. Whitman	Chairman of the Board and Chief Executive Officer	November 25, 2002
/s/ HYRUM W. SMITH Hyrum W. Smith	Vice-Chairman of the Board	November 25, 2002
/s/ STEPHEN M. R. COVEY Stephen M. R. Covey	Executive Vice President and Director	November 25, 2002
/s/ STEPHEN D. YOUNG Stephen D. Young	Chief Financial Officer	November 25, 2002
/s/ ROBERT H. DAINES Robert H. Daines	Director	November 25, 2002
/s/ E. J. “JAKE” GARN E. J. “Jake” Garn	Director	November 25, 2002
/s/ DENNIS G. HEINER Dennis G. Heiner	Director	November 25, 2002

/s/ BRIAN A. KRISAK Brian A. Krisak	Director	November 25, 2002
/s/ DONALD J. MCNAMARA Donald J. McNamara	Director	November 25, 2002
/s/ JOEL C. PETERSON Joel C. Peterson	Director	November 25, 2002
/s/ E. KAY STEPP E. Kay Stepp	Director	November 25, 2002

Certification of the CEO

I, Robert A. Whitman, certify that:

1. I have reviewed this annual report on Form 10-K of Franklin Covey Co.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 26, 2002

/s/ ROBERT A. WHITMAN

Robert A. Whitman
Chief Executive Officer

Certification of the CFO

I, Stephen D. Young, certify that:

1. I have reviewed this annual report on Form 10-K of Franklin Covey Co.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 26, 2002

/s/ STEPHEN D. YOUNG

Stephen D. Young
Chief Financial Officer

FranklinCovey

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 24, 2003 at 8:30 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:

1. 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 2005 and until their respective successors shall be duly elected and shall qualify;
2. To consider and vote upon a proposal to ratify the appointment of KPMG LLP as independent auditors of the Company for the fiscal year ending August 31, 2003; and
3. 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, 2002, as the record date for the determination of shareholders entitled to receive notice of and to vote at the Annual Meeting and at any adjournment or postponement thereof.

All shareholders are urged to attend the meeting.

By Order of the Board of Directors

Robert A. Whitman
Chairman of the Board

November 30, 2002

Important

Whether or not you expect to attend the Annual Meeting in person, to assure that your shares will be represented, please promptly complete, date, sign and return the enclosed proxy without delay in the enclosed envelope, which requires no additional postage if mailed in the United States. Your proxy will not be used 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 ("FranklinCovey" or the "Company"), in connection with the solicitation by the Board of Directors of the Company of proxies from holders of outstanding shares of the Company's Common Stock, $0.05 par value per share (the "Common Stock") and outstanding shares of the Company's Series A Preferred Stock, no par value (the Series A Preferred Stock) for use at the Annual Meeting of Shareholders of the Company to be held on Friday, January 24, 2003, 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 13, 2002.

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 therefore, 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, 2002, 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 20,008,625 shares of Common Stock and 873,460 shares of Series A Preferred Stock. The holders of record of the shares of Common Stock on the Record Date entitled to be voted at the Annual Meeting are entitled to cast one vote per share on each matter submitted to a vote at the Annual Meeting. The holders of record of Series A Preferred Stock on the Record Date are entitled to cast that number of votes equal to the number of shares of Common Stock each share of Series A Preferred Stock could be converted into, approximately 7.14 votes per share of Series A Preferred Stock or an aggregate of approximately 6,239,000 votes for all of the Series A Preferred Stock. The shares of Common Stock and Series A Preferred Stock vote together as a single class on all matters to be presented at the Annual Meeting.

Proxies

Shares of Common Stock and Series A Preferred Stock which are entitled to be voted at the Annual Meeting and which are represented by properly executed proxies will be voted in accordance with the instructions indicated on such proxies. If no instructions are indicated, such shares will be voted FOR the election of each of the four director nominees, FOR the ratification of the appointment of KPMG LLP as independent auditors of the Company for the fiscal year ending August 31, 2003, and in the discretion of the proxy holder as to any other matters which may properly come before the Annual Meeting. A shareholder who has executed and returned a proxy may revoke it at any time prior to its exercise at the Annual Meeting by executing and returning a proxy bearing a later date, by filing with the Secretary of the Company, at the address set forth above, a written notice of revocation bearing a later date than the proxy being revoked, or by voting the Common Stock covered thereby in person at the Annual Meeting.

Vote Required

A majority of the votes entitled to be cast at the Annual Meeting is required for a quorum at the Annual Meeting. Abstentions and broker non-votes are counted for purposes of determining the presence or absence of a quorum for the transaction of business. In the election of the directors, the four nominees receiving the highest number of votes will be elected. Accordingly, abstentions and broker non-votes will not affect the outcome of the election. The ratification of the appointment of KPMG LLP as independent auditors for the Company, and the approval of other matters which may properly come before the meeting generally requires that the number of votes cast in favor of the proposal exceed the number of votes cast in opposition. Abstentions and broker non-votes will have the same effect as votes against these proposals. 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. Holders of shares of Series A Preferred Stock are entitled to that number of votes equal to the number of shares of Common Stock into which their shares could be converted, approximately 7.14 votes per share.

ELECTION OF DIRECTORS

At the Annual Meeting, Stephen R. Covey, Dennis G. Heiner, Brian A. Krisak and Hyrum W. Smith 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 2005 and until their successors shall be duly elected and qualified. If any of the nominees should be unavailable to serve, which is not now anticipated, the proxies solicited hereby will be voted for such other persons as shall be designated by the present Board of Directors. The four nominees receiving the highest number of votes at the Annual Meeting will be elected.

Nominees for Election to the Board of Directors

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

Stephen R. Covey, 70, has been Vice Chairman of the Board of FranklinCovey since June 1999. Dr. Covey Served as Co-Chairman of the Board of Directors from May 1997 to June 1999. Dr. Covey founded Covey Leadership Center and served as its Chief Executive Officer and Chairman of the Board from 1980 to 1997. Dr. Covey received his MBA degree from Harvard Business School and his doctorate from Brigham Young University, where he was a professor of organizational behavior and business management from 1957 to 1983, except for periods in which he was on leave from teaching, and served as Assistant to the President and Director of University Relations. Dr. Covey is the author of several acclaimed books, including *The 7 Habits of Highly Effective People*, *Principle-Centered Leadership*, *The 7 Habits of Highly Effective Families,* and the co-author of *First Things First*. His newest books, *The Nature of Leadership*, co-authored with Roger Merrill and Dewitt Jones, and *Living the 7 Habits: Stories of Courage and Inspiration,* were introduced in 1999. He is also a director of Points of Light foundation and a fellow of the Center for Organizational and Technological Advancement at Virginia Tech.

Dennis G. Heiner, 59, was appointed as a director of the Company in January 1997. Mr. Heiner has served as president and chief executive officer of Werner Co., a leading manufacturer of climbing products and aluminum extrusions, since 1999. Prior to joining Werner, he was employed by Black & Decker Corporation from 1985 to 1999 where he served as Executive Vice President and President of the Security Hardware Group, a world leader in residential door hardware.

Brian A. Krisak, 51, was appointed to the Board of Directors of FranklinCovey in June 1999 while a principal of the Hampstead Group L.L.C., a privately-held equity investment firm based in Dallas, Texas. Mr. Krisak was with the Hampstead Group from January 1999 to September 2002 and served as principle while there. Currently, Mr. Krisak is President of Krisak and Company, a management consulting firm specializing in strategy founded in 1987. Previously Mr. Krisak has held several executive and board positions in the technology and consumer products and services industries and was a principal of Cambridge Research Institute, a strategy consulting firm in Cambridge, Mass. He received his degree in Government and Law from Lafayette College and his MBA from Harvard University.

Hyrum W. Smith, 59, 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 Successful Time and Life Management, What Matters Most* and *The Modern Gladiator.* He is also a director of SkyWest, Inc. (NASDAQ), Greater Salt Lake Area Red Cross, and a member on the Advisory Board for the University of Utah School of Business.

Directors Whose Terms of Office Continue

In addition to the directors to be elected at the Annual Meeting, the directors named below will continue to serve their respective terms of office as indicated. Joel C. Peterson, E. Kay Stepp and Robert A. Whitman are currently serving terms which expire at the annual meeting of the Company's shareholders to be held following the end of fiscal year 2003. 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 2004. In order to help the Company comply with the new standards set forth in the Sarbanes-Oxley Act and the new New York Stock Exchange guidelines which require a majority of independent directors, Stephen M. R. Covey voluntarily resigned from the Board of Directors prior to the November 2002 Board of Directors meeting. Brief statements setting forth certain biographical information concerning each continuing director appear below.

Joel C. Peterson, 55, has been a director of FranklinCovey since May 1997. Mr. Peterson served as a director of Covey Leadership Center ("Covey") from 1993 to 1997 and as Vice Chairman of Covey from 1994 to 1997. Mr. Peterson is also chairman of Peterson Capital, Inc., a privately-held equity investment firm and is chairman of the board of directors for Essex Capital, a real estate development and management company. Mr. Peterson also serves on the boards of directors of Asurion, JetBlue Airways Corporation (NASDAQ) and Sverica. Mr. Peterson earned his MBA from Harvard Business School.

E. Kay Stepp, 57, has been a director of the Company since May 1997. Ms. Stepp served as a director of Covey from 1992 to 1997. Ms. Stepp is the chair of the board of Providence Health System, former president and chief operating officer of Portland General Electric, an electric utility, and former chair of the board of Gardenburger, Inc. (NASDAQ). Ms. Stepp is also currently a director of StanCorp Financial Group (NYSE), Planar Systems, Inc. (NASDAQ). She formerly was principal of Executive Solutions, an executive coaching firm, and was a director of the Federal Reserve Bank of San Francisco. She received her Bachelor of Arts degree from Stanford University and a Master in Arts in Management from the University of Portland and attended the Stanford Executive Program and the University of Michigan Executive Program.

Robert A. Whitman, 49, has been a director of FranklinCovey since May 1997 and has served as Chairman of the Board of Directors since June 1999 and Chief Executive Officer of the Company since January 2000. Mr. Whitman served as a director of Covey from 1994 to 1997. Prior to joining the Company, Mr. Whitman served as president and co-chief executive officer of the Hampstead Group L.L.C., a privately-held equity investment firm based in Dallas, Texas, from 1992 to 2000. Mr. Whitman received his Bachelor of Arts degree in Finance from the University of Utah and his MBA from Harvard Business School.

Robert H. Daines, 68, has been a director of the Company since April 1990. Dr. Daines is the Driggs Professor of Strategic Management at Brigham Young University, where he has been employed since 1959. Dr. Daines also currently serves on the board of directors for Volvo Commercial Credit Corporation and Alta Technology. Dr. Daines received his MBA from Stanford and his DBA from Indiana University.

E. J. "Jake" Garn, 70, was elected to serve as a director of FranklinCovey in January 1993. Mr. Garn is managing director of Summit Ventures, LLC with offices in Salt Lake City and Washington, DC. From December 1974 to January 1993, Mr. Garn was a United States Senator from the State of Utah. During his term in the Senate, Mr. Garn served six years as Chairman of the Senate Banking, Housing and Urban Affairs Committee and served on the Appropriations, Energy and Natural Resources, and Senate Rules Committees. Prior to his election to the Senate, Mr. Garn served as Mayor of Salt Lake City, Utah, from January 1972 to December 1974. Mr. Garn also currently serves as a director of Morgan Stanley Funds (NYSE), NuSkin Asia Pacific Corporation (NYSE) and BMW Bank, NA (NASDAQ), and is a member of the Board of Trustees of Intermountain Health Care.

Donald J. McNamara, 49, was appointed to serve as a director of the Company in June 1999. Mr. McNamara is the founder of the Hampstead Group, L.L.C., a privately-held equity investment firm based in Dallas, Texas, and has served as its Chairman since its inception in 1989. He currently serves as Chairman of the Board of Directors of FelCor Lodging Trust (NYSE). Mr. McNamara also currently serves as a director of Legend Airlines, a director of Omega Healthcare Investors, Inc. (NYSE), a trustee of Saint Mark's School, a trustee of the Virginia Tech Foundation, and a member of the Urban Land Institute. He received his undergraduate degree from Virginia Tech and his MBA in 1978 from Harvard University.

Committees, Meetings and Reports

The Board of Directors has standing Audit, Executive, Nominating/Corporate Governance and Compensation Committees. The members of the Audit Committee are Messrs. Jake Garn, Chairperson, Robert Daines and Joel Peterson. The Executive Committee presently consists of Messrs. Joel Peterson, Chairperson and Robert Whitman. The Nominating/Corporate Governance Committee consists of Messrs. Joel Peterson, Chairperson, Robert Daines and Ms. Kay Stepp. The Compensation Committee consists of Ms. Kay Stepp, Chairperson, and Messrs. Dennis Heiner, Brian Krisak and Robert Daines.

The Audit Committee met three times during the 2002 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. Each of the members of the Audit Committee are independent as defined in Sections 303.01(B)(2)(a) and (3) of the New York Stock Exchange Listing Standards.

The Executive Committee met four times during the 2002 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 Nominating/Corporate Governance Committee met once during the 2002 fiscal year. The Nominating/Corporate Governance Committee assists the Board of Directors by: (i) identifying individuals who are qualified and willing to become Board members; (ii) recommending that the Board nominate as many identified individuals as needed for appointment as a director for each annual Company shareholder meeting; (iii) ensuring that the Audit, Compensation and Nominating/Corporate Governance Committees of the Board are comprised of qualified and experienced "independent" directors; (iv) developing and recommending succession plans for the Chief Executive Officer; and (v) developing corporate governance policies and procedures applicable to the Company and recommending that the Board adopt said policies and procedures. The Nominating/Corporate Governance Committee does not consider nominees recommended by shareholders.

The Compensation Committee met three times during the 2002 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 2002 fiscal year, there were six meetings held by the Board of Directors of FranklinCovey. All directors attended more than 75 percent of the board meetings. No director attended fewer than 75 percent of the total number of meetings of the committees on which he or she served.

Director Compensation

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

EXECUTIVE OFFICERS

In addition to Mr. Whitman, certain information is furnished with respect to the following executive officers of the Company:

Val John Christensen, 49, 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.

Robert William Bennett, Jr., 46, has been President of the Organizational Strategic Business Unit of the Company since July 2002. Mr. Bennett joined Franklin Covey February 2000 as Vice President of Sales and later served as Senior Vice President of Global Sales and Delivery. Prior to joining the Company, Mr. Bennett served as president of PowerQuest from 1998 to 2000 and as general manger and president of Folio from 1993 to 1998. Mr. Bennett has 24 years of sales and sales management experience with Fortune 500 companies like IBM.

Mark A. Korros, 50, has been President and General Manager of the Consumer Strategic Business Unit since January 2002. Mr. Korros is in charge of the Company's retail stores, catalog operations, e-commerce and wholesale distribution as well as all paper products, binder and technology products and product development. Prior to joining Franklin Covey, Mr. Korros served as president of Samsonite USA and Canada from 1995 to 2001. Mr. Korros has 27 years of experience in consumer products management with companies including Reebok and HealthTex Children's Ware. Mr. Korros received his BA in business from the University of Kentucky.

J. Scott Nielsen, 44, has been Senior Vice President and Treasurer of FranklinCovey since January 2000. He joined the Company in 1994 and has held various finance positions including Vice President of Finance and Controller with duties including mergers, acquisitions, divestitures, and performance analysis. Prior to joining the Company, Mr. Nielsen was a senior audit manager for Price Waterhouse. Mr. Nielsen is a Certified Public Accountant (CPA).

Stephen D. Young, 49, Joined FranklinCovey as Senior Vice President of Finance, Chief Accounting Officer and Controller in January 2001 and was appointed Chief Financial Officer in November 2002. Prior to joining FranklinCovey he served as senior vice-president of finance, Chief Financial Officer and director of international operations for Weider Nutrition for seven years. Mr. Young has 22 years of accounting and management experience. Mr. Young is a CPA and holds a Bachelor of Science Accounting degree from Brigham Young University.

EXECUTIVE COMPENSATION

The compensation of Robert A. Whitman, the Company's Chief Executive Officer and the four other most highly paid executive officers and two other former executive officers that would have been in the table had they been executive officers at August 31, 2002, the most recent fiscal year end, is shown on the following pages in three tables and discussed in a report from the Compensation Committee of the Board of Directors.

Summary Compensation Table

		Annual Compensation			Long Term Compensation Awards		
Name and Position	Fiscal Year	Salary	Bonus	Other Annual Compensation(1)	Restricted Stock Awards(2)	Options/ SARs(#)(3)	All Other Compensation(4)
Robert A. Whitman (5)	2002	–	–	–	–	–	–
Chairman and Chief	2001	423,080	–	526,019	–	1,602,000	–
Executive Officer	2000	336,539	333,333	22,990	–	–	–
Val J. Christensen	2002	300,000	67,500	543	–	–	9,754
Executive Vice President	2001	300,000	134,663	1,302	26,250	–	5,192
and Secretary	2000	320,708	150,000	–	–	–	8,808
Robert William Bennett Jr.	2002	250,000	46,815	–	–	–	6,427
President Organizational	2001	250,000	85,685	1,926	–	–	6,074
Strategic Business Unit	2000	19,231	–	–	–	50,000	–
Mark A. Korros	2002	173,077	51,563	23,959	–	50,000	3,916
President Consumer	2001	–	–	–	–	–	–
Strategic Business Unit	2000	–	–	–	–	–	–
Stephen D. Young	2002	200,000	26,781	–	–	–	4,872
Senior Vice President	2001	126,923	37,615	–	–	35,000	2,100
Chief Financial Officer	2000	–	–	–	–	–	–
Former Executives							
Mikell Rigg-McGuire	2002	144,314	61,695	–	–	–	258,625
	2001	275,962	140,000	188	6,563	–	5,213
	2000	173,077	86,050	–	–	–	1,684
Darl McBride	2002	175,961	12,500	–	–	–	203,998
	2001	250,000	137,021	3,080	–	–	–
	2000	44,231	25,479	–	–	–	–

(1) Includes payments deemed as compensation to Mr. Whitman for travel expenses incurred in fiscal years 2000 and 2001. Fiscal 2001 payments include $214,678 attributed to Mr. Whitman as compensation at the end of calendar 2001 that were incurred and paid in fiscal 2001. Includes compensation paid to Mr. Korros for relocation expenses. Other amounts relate to miscellaneous benefits paid during the year.

(2) Restricted stock awards vest in full four years from the date of grant. No vesting occurs prior to four years from grant. Holders of restricted shares are entitled to vote the shares.

(3) Amounts shown reflect options granted to the named executive officers pursuant to the Franklin Covey 1992 Stock Incentive Plan (the "Incentive Plan") or in the case of Mr. Whitman the Non-Qualified Executive Stock Option Plan. As of August 31, 2002, the Company had not granted any stock appreciation rights.

(4) Amounts shown reflect contributions made by the Company for the benefit of the named executive officers under the Franklin Covey 401(k) Profit Sharing Plan. Includes severance payments paid to Ms. McGuire and Mr. McBride.

(5) Mr. Whitman has not taken his base salary or bonus compensation since May 2001 and does not anticipate receiving any compensation until the Company's performance improves.

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, 2002 to the persons named in the preceding Summary Compensation Table. As of August 31, 2002, 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 Rate of Stock Price Appreciation for the Option Term (in dollars)	
					5%	10%
Robert A. Whitman	–	–	–	–	–	–
Val J. Christensen	–	–	–	–	–	–
Robert William Bennett Jr.	–	–	–	–	–	–
Mark A. Korros	50,000	49.5%	$ 5.99	1/7/12	$188,354	$477,326
Stephen D. Young	–	–	–	–	–	–

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, 2002, upon the exercise of stock options, the value realized upon such exercise, the number of unexercised stock options held on August 31, 2002, 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, 2002, the Company had not granted any stock appreciation rights to any of the executive officers named below.

Name	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Unexercised Options at August 31, 2002		Value of Unexercised In-the-Money Options at August 31, 2002	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Robert A. Whitman	–	$ –	–	1,602,000	$ –	$ –
Val John Christensen	–	–	75,475	23,825	–	–
Robert William Bennett Jr.	–	–	25,000	25,000	–	–
Mark A. Korros	–	–	–	50,000	–	–
Stephen D. Young	–	–	8,750	26,250	–	–

Employment Agreements

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

In an effort to develop a compensation agreement that would create a strong link in both pay for performance and shareholder value creation, the Board and Mr. Whitman have directly linked Mr. Whitman's annual performance award and long-term compensation to measures that create value and increase the price of the Company's Common Stock. The performance award's unusual structure differs from normal executive compensation programs in that the annual performance pay is tied to very aggressive growth goals and the long-term compensation is awarded only after most shareholders have benefited from a substantial increase in share price. The Company's outside compensation consultants advised the Board that long-term compensation is typically bench-marked by company size and is usually granted at current market price. However, to emphasize pay for performance, the options granted to Mr. Whitman have an unusually conservative vesting schedule and grant price, consistent with Mr. Whitman's desire that value be created for existing shareholders before he receives long-term compensation awards. The award provides for no vesting for seven years (and only then if currently employed) of any of the options unless the market price of the Company's stock reaches certain levels that would increase shareholders' value by approximately 300% to 700% over that time period. The grant price of $14.00 was and remains well above the current market price. The Board and Mr. Whitman have designed this compensation package with the intent that existing shareholders would benefit prior to Mr. Whitman receiving meaningful compensation.

On September 1, 2000, the Company entered into an employment agreement with Robert A. Whitman, as President and Chief Executive Officer of the Company. In addition, the Company agreed to use its best efforts to continue Mr. Whitman in his position as chairman of the board of directors. The agreement has an initial term expiring August 31, 2007, and provides for an annual base salary, paid retroactively to December 31, 1999, of $500,000, to be reviewed annually by the Compensation Committee. The base salary may be increased, but not decreased, during the term of the agreement. The Employment Agreement provides for an annual bonus, to be paid based on the attainment of performance objectives determined by the Compensation Committee. The bonus can range from 0 percent to 150 percent of the base salary. A substantial portion of Mr. Whitman's annual performance bonus is based upon the Company meeting operating targets established by the Compensation Committee. The remaining portion of Mr. Whitman's annual bonus will be determined based on reaching other targets established by the Compensation Committee on an annual basis which may include such things as: meeting target dates for development of specific projects, meeting sales goals for individual products or business areas, increasing revenues and/or market penetration associated with products or groups of products, successful development and introduction of new products, attracting and retaining key employees, implementing business strategies, identifying and negotiating business transactions, and other items that may be established by the Compensation Committee from time to time. Mr. Whitman has voluntarily not taken his base salary or bonus compensation since May 2001 and does not anticipate receiving any compensation until the Company's performance improves.

Mr. Whitman was also granted an option to acquire 1,602,000 shares of common stock, with an exercise price of $14.00 per share. This option will not be exercisable until August 31, 2007. However, acceleration of that exercise date for all or a portion of those options may occur if the average closing sales price of the Company's Common Stock achieves certain levels prior to that date based on a schedule determined by the average closing price of the Company's common stock for the preceding 90 consecutive trading days. This schedule ranges from $20.00 per share at which point half of the options will be exercisable to $50.00 per share at which point all of the options will be exercisable. If not exercised, the options expire August 31, 2010. Mr. Whitman will also be entitled to participate in all Company sponsored employee benefit plans and will be reimbursed for all expenses incurred on behalf of the Company.

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

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

Compensation Committee Report

The following report was prepared by the Compensation Committee of the Board of Directors (the "Committee"), which is composed of outside 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 Executive"). It also has the responsibility of administering the Incentive Plan. The Key Executive determines the amount of cash compensation for executive officers other than the Key Executive. The Committee determines the stock awards under the Incentive Plan for all executive officers, including the Key Executive. The current members of the Committee are Kay Stepp, who serves as Chairperson, Robert Daines, Dennis Heiner and Brian Krisak. The Committee met three times during fiscal year 2002.

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

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

Key Executive Compensation. Key Executive Compensation consists of annual salaries and additional compensation in the form of cash performance-based bonuses, stock ownership plans, stock options and restricted stock awards as the Committee in its discretion awards to the Key Executive. The annual salary of the Key Executive is set at an amount that is 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 not awarded to the Key Executive in 2002 reflecting the Company's overall performance.

Chairman, President and Chief Executive Officer's Compensation. Mr. Whitman's compensation for fiscal year 2002 was determined pursuant to the principles described above and his employment agreement. In June 2001, Mr. Whitman asked the Committee to discontinue paying his salary and to not pay the annual performance bonus for 2001. Mr. Whitman did not receive any compensation during fiscal year 2002.

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 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, 2002, executive officers held incentive stock options to purchase an aggregate of 1,836,300 shares of Common Stock granted under the direction of the Committee pursuant to the Incentive Plan since its inception in 1992 and the Non-Qualified Executive Stock Option Plan of 2000. Of those options, 109,225 are currently exercisable.

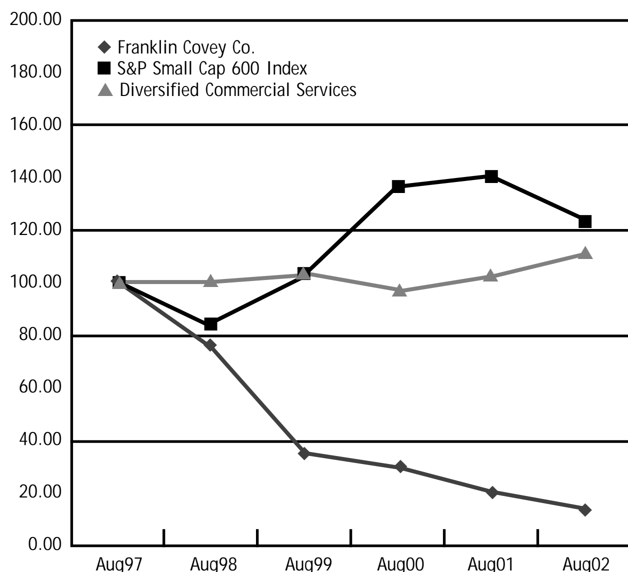
Other Compensation Plans. The Company has a number of other broad-based employee benefit plans in which executive officers participate on the same terms as other employees meeting the eligibility requirements, subject to any legal limitations on amounts that may be contributed to or benefits payable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

Respectfully submitted,

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

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, 2002, for the Common Stock, the S&P 600 SmallCap Index in which the Company was included as of August 31, 2002 and the S&P Diversified Commercial Services Index, the index to which the Company was assigned in the S&P 600 SmallCap Index. Previously, the Company had been included in the Consumer (Jewelry, Novelties and Gifts) Index, but was moved to the Diversified Commercial Services Index by the S&P 600 SmallCap Index when that index adjusted its categories. The Diversified Commercial Services Index consists of 20 companies similar in size and nature to Franklin Covey. The Company is no longer a part of the S&P 600 SmallCap Index but believes that the S&P 600 SmallCap Index and the Diversified Commercial Services Index continues to provide appropriate benchmarks with which to compare the Company's stock performance.



PRINCIPAL HOLDERS OF VOTING SECURITIES

The following table sets forth information as of November 29, 2002, with respect to the beneficial ownership of shares of Common Stock and Series A Preferred Stock by each person known by the Company to be the beneficial owner of more than 5 percent of Common Stock or Series A Preferred Stock, by each director, by each executive officer named in the Summary Compensation Table and by all directors and officers as a group, except for Financial and Investment Management Group and Dimensional Fund Advisors, which information is provided as of November 1, 2002. 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 20,008,625 shares of Common Stock and 873,460 shares of Series A Preferred Stock outstanding as of November 29, 2002. In cases where shareholders own both Common Stock and Series A Preferred Stock, the number of shares shown assumes the conversion of the Series A Preferred Stock into the Common Stock and the issued and outstanding Common Stock is increased by an equal amount for that shareholder. The shares of Series A Preferred Stock are shown on an "as converted basis" with approximately 7.14 shares of Common Stock issuable on conversion of each share of Series A Preferred Stock.

	Beneficial Ownership as of November 29, 2002	
	Number of Shares	Percentage of Class
Common Stock and Common Stock Equivalents:		
Knowledge Capital Investment Company (1)(2). 2200 Ross Avenue, Suite 42-W Dallas, Texas 75201	6,928,288	26.7%
Financial and Investment Management Group 417 St. Joseph St. Suttons Bay, Michigan 49682	1,983,784	9.9
Dimensional Fund Advisors, Inc. 1299 Ocean Avenue Santa Monica, California 90401	1,556,500	7.8
Stephen R. Covey (3) c/o Franklin Covey Co. 2200 West Parkway Boulevard Salt Lake City, Utah 84119-2331	1,422,384	7.1
Dennis R. Webb (3)(4)(7) c/o Franklin Covey Co. 2200 West Parkway Boulevard Salt Lake City, Utah 84119-2331	1,075,712	5.4
Hyrum W. Smith (3)(4)	470,637	2.4
Val John Christensen (5)	328,481	1.6
Robert A. Whitman (7)	315,210	1.6
Darl McBride	246,768	1.2
Mikell Rigg McGuire	237,299	1.2
Joel C. Peterson	144,474	*
Donald J. McNamara (2)	82,210	*
Stephen D. Young (5)	30,812	*
Robert William Bennett Jr. (5)	30,218	*
Robert H. Daines (6)	20,002	*

	Beneficial Ownership as of November 29, 2002	
	Number of Shares	Percentage of Class
Dennis G. Heiner	13,000	*
Mark A. Korros	12,500	*
Brian A. Krisak	10,000	*
Kay E. Stepp	6,431	*
E. J. “Jake” Garn	4,000	*
All directors and executive officers As a group (16 persons) (1)(2)(3)(4)(5)(6)	9,992,959	38.4%

* Less than 1%.

(1) The Series A Preferred Stock is convertible into Common Stock at a rate of approximately 7.14 shares of Common Stock for each share of Series A Preferred Stock. The number of shares shown for Knowledge Capital Investment Company include 827,860 shares of the Series A Preferred Stock shown on an as converted basis as 5,913,286 shares of Common Stock. The holdings of Knowledge Capital Investment Company represent 94.8 percent of the issued and outstanding Series A Preferred Stock.

(2) Mr. McNamara, who is a director of the Company, is a principal of the private investment firm that sponsors Knowledge Capital and therefore may be deemed the beneficial owner of the Common Stock and the Series A Preferred Stock and the shares of Common Stock into which the Series A Preferred Stock may be converted. Mr. McNamara disclaims beneficial ownership of the Common Stock and the Series A Preferred Stock and of the Common Stock into which the Series A Preferred Stock may be converted.

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

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

(5) The share amounts indicated include shares subject to options currently exercisable held by the following persons in the following amounts: Val John Christensen, 75,475 shares; Robert William Bennett Jr., 25,000 shares; Stephen D. Young, 8,750 shares; and all executive officers and directors as a group, 109,225 shares.

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

(7) Mr. Whitman acquired 200,000 shares from Dennis R. Webb, at the request of Mr. Webb, on October 2, 2001, at a price of $2.50 per share. Mr. Whitman agreed to permit Mr. Webb to rescind the transaction by delivering to him the purchase price paid in the original transaction. The 200,000 shares are counted in Mr. Whitman’s number of shares listed above. The shares are not included in Mr. Webb’s shares listed above, though he may be deemed to be beneficial owner of those shares.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), requires the Company’s directors and executive officers, and persons who own more than 10 percent of the Common Stock, to file with the Securities and Exchange Commission (the “Commission”) initial reports of ownership and reports of changes in ownership of the Common Stock and other securities which are derivative of the Common Stock. Executive officers, directors and holders of more than 10 percent of the Common Stock are required by Commission regulations to furnish the Company with copies of all such reports they file. Based upon a review of the copies of such forms received by the Company and information furnished by the persons named below, the Company believes that all reports were filed on a timely basis, except for a Form 4 for E. Kay Stepp, a director, reporting the purchase of 3,431 shares was due on April 10, 2002, but not filed until the Form 5 report made on November 18, 2002; a Form 4 report filed on November 11, 2001, to report the acquisition of 10,000 shares by Dennis G. Heiner that was due October 4, 2001; a Form 4 report filed November 23, 2001, to report the acquisition of 10,000 shares by Brian A. Krisak that was due November 13, 2001; a report on Form 4 filed November 19, 2001, to report the acquisition of 57,790 shares by Donald J. McNamara that was due November 13, 2001; a Form 3 report filed on March 26, 2002 that was due March 25, 2002; and a report on Form 4 filed September 6, 2002, to report the Acquisition of 50 shares by Robert W. Bennett that was due September 3, 2002.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In connection with the merger between the Company and Covey Leadership Center, Stephen R. Covey, who is vice-chairman of the Board of Directors, entered into a Speaker Services Agreement with the Company pursuant to which Dr. Covey receives 80 percent of the proceeds from personal speaking engagements, which resulted in a payment of $1.8 million to Dr. Covey for the fiscal year ended August 31, 2002. Also in connection with this transaction, the Company entered in a 12-year lease agreement expiring in 2009 on two office buildings located in Provo, Utah. The buildings are leased from entities in which Stephen R. Covey, a director of the Company has a 35 percent interest. Lease rentals paid in fiscal 2002 were $2,132,734. 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.

In fiscal 2002 Hyrum W. Smith, who is vice-chairman of the Board of Directors, entered into a Speaker Services Agreement with the Company pursuant to which Mr. Smith receives 80 percent of the proceeds from personal speaking engagements, which resulted in a payment of $0.1 million for the fiscal year ended August 31, 2002. The Company has also licensed certain intellectual property to a company in which Mr. Smith is a principal shareholder. No license payments were required to be paid to the Company during fiscal 2002.

During fiscal 2002, Stephen M. R. Covey, a former director of the Company, entered into a sabbatical and severance agreement with the Company. The agreement provides for payments totaling $0.9 million through November 2004.

In fiscal 2002, Brian A. Krisak, a director of the Company, entered into a consulting agreement with the Company to assist it with various projects and transactions, such as the sale of Premier and new product offerings, resulting in a payment to Mr. Krisak of $0.2 million during fiscal 2002. The consulting agreement expires in December 2003.

Donald J. McNamara, a director of the Company, is a principal of the Hampstead Group, L.L.C., a Texas limited liability company, the private investment firm that sponsors Knowledge Capital Investment Company, the holder of 95 percent of the Company's outstanding Series A Preferred Stock, and of Hampstead Interests, LP, a Texas limited partnership. On June 2, 1999, the Company and Hampstead Interests, LP entered into a Monitoring Agreement which provides for payment of a monitoring fee of $100,000 per quarter to Hampstead Interests, LP for assisting the Company in strategic planning, including acquisitions, divestitures, new development and financing matters. The agreement continues so long as Knowledge Capital Investment Group owns more than 50 percent of the 750,000 shares of Series A Preferred Stock (or Common Stock equivalents) originally purchased. The Company paid $400,000 to Hampstead Interests, LP during the fiscal year ended August 31, 2002, pursuant to the Monitoring Agreement.

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

SELECTION OF AUDITOR

Effective June 3, 2002, the Board of Directors of the Company, upon recommendation of its Audit Committee, dismissed Arthur Andersen LLP ("Andersen") as the Company's independent auditors. Andersen had audited the Company's financial statements since 1996. Also on June 3, 2002, the Board of Directors engaged KPMG LLP ("KPMG") as the Company's independent auditors for the fiscal year ended August 31, 2002.

In connection with its audits of the Company for the fiscal years ended August 31, 2001 and 2000, and during the subsequent interim period preceding the engagement of KPMG, there were no disagreements with Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure. Andersen's reports on the Company's financial statements for the years ended August 31, 2001 and 2000 did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

During the previous two fiscal years, and during the subsequent interim period preceding the engagement of KPMG, Andersen did not advise, and has not indicated to the Company that it had reason to advise, the Company of any reportable event, as defined in Item 304(a)(1)(b) of Regulation S-K.

The Audit Committee of the Board of Directors has recommended, and the Board of Directors has selected, the firm of KPMG LLP, to audit the financial statements of the Company for the fiscal year ending August 31, 2003, subject to ratification by the shareholders of the Company. The Board of Directors anticipates that one or more representatives of KPMG 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.

Audit Fees

The Company paid an aggregate amount of approximately $60,000 in fees and expenses to Andersen and $371,000 to KPMG for professional services rendered in connection with their reviews and audit of the Company's consolidated financial statements included in the Company's annual report of Form 10-K and quarterly reports on Forms 10-Q for fiscal 2002.

Audit Related Fees

The Company paid Andersen an aggregate amount of $281,000 and KPMG an aggregate amount of $45,000 in fees and expenses for audit related professional services. In general, these services include employee benefit plan audits, assistance on proposed transactions and implementation of new accounting standards.

Financial Information Systems Design and Implementation Fees

The Company paid no fees or expenses to Andersen or KPMG with respect to financial information systems design and implementation.

All Other Fees

The Company paid Andersen an aggregate amount of $75,000 and KPMG an aggregate amount of $28,000 in fees and expenses for all other services during fiscal 2002. "Other services" primarily included income tax planning, consulting and compliance services and consulting projects related to the Company's retail operations.

The Audit Committee has reviewed the amounts paid to Andersen and KPMG for audit and audit related services and all non-audit services and has determined that the fees paid for non-audit services provided to the Company by Andersen and KPMG did not impair Andersen's or KPMG's independence as the auditors of the Company.

Audit Committee Report

In accordance with its written charter adopted by the Board of Directors, the Audit Committee assists the Board in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and financial reporting practices of the Company.

In discharging its oversight responsibility as to the audit process, the Audit Committee obtained from the independent auditors a formal written statement describing all relationships between the auditors and the Company that might bear on the auditors' independence consistent with Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees," discussed with the auditors any relationships that may impact their objectivity and independence and satisfied itself as to the auditors' independence.

The Audit Committee discussed and reviewed with the independent auditors all communications required by generally accepted auditing standards, including those described in Statement on Auditing Standards No. 61, as amended, "Communication with Audit Committees" and, with and without management present, discussed and reviewed the results of the independent auditors' work.

The Audit Committee reviewed the audited financial statements of the Company as of and for the fiscal year ended August 31, 2002, with management and the independent auditors.

Based on the above-mentioned review and discussions with management and the independent auditors, the Audit Committee recommended to the Board that the Company's audited financial statements be included in its Annual Report on Form 10-K for the fiscal year ended August 31, 2002, for filing with the Securities and Exchange Commission. The Audit Committee also recommended the reappointment, subject to shareholder approval, of KPMG and the Board concurred in such recommendation.

Date: November 25, 2002

E. J. "Jake" Garn, Chairperson
Robert H. Daines
Joel C. Peterson

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE SHAREHOLDERS VOTE IN FAVOR OF THE PROPOSAL TO RATIFY THE SELECTION OF KPMG LLP AS INDEPENDENT AUDITORS FOR THE COMPANY FOR THE FISCAL YEAR ENDING AUGUST 31, 2003.

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 2004 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, 2003.

ADDITIONAL INFORMATION

FranklinCovey 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 2002 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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