INVITROGEN CORP
Form 4
December 04, 2007

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
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(Print or Type Responses)

1. Name and Address of Reporting Person *
Brust Bernd

(Last) (First) (Middle)

1600 FARADAY AVENUE

(Street)

CARLSBAD, CA 92008

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
INVITROGEN CORP [IVGN]

3. Date of Earliest Transaction (Month/Day/Year)
11/30/2007

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
SVP - Worldwide Sales

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	11/30/2007	11/30/2007	M	V	3,125	A	$ 55.02	4,416	D	
Common Stock	11/30/2007	11/30/2007	S	V	3,125	D	$ 97	1,291	D	
Common Stock	11/30/2007	11/30/2007	M	V	2,500	A	$ 76.86	3,791	D	
Common Stock	11/30/2007	11/30/2007	S	V	2,500	D	$ 96.09	1,291	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474
(9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amou Underlying Securit (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amo or Num of Shar
Non-Qualified Stock Option	$ 55.02	11/30/2007	11/30/2007	M	V		3,125 (1) (2)	11/30/2007	11/30/2016	Common Stock	3,1
Non-Qualified Stock Option	$ 76.86	11/30/2007	11/30/2007	M	V		2,500 (1) (3)	05/13/2006	05/13/2015	Common Stock	2,5

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Brust Bernd 1600 FARADAY AVENUE CARLSBAD, CA 92008			SVP - Worldwide Sales	

Signatures

/s/ Joseph W. Secondine, Jr. POA	12/04/2007
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Options exercised pursuant to a 10b5-1 trading plan.

(2) Options exercised from grant 101626.

(3) Options exercised from grant 011264.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. n accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions

of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	£	Accelerated filer	þ

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

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

As of March 1, 2013, the aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant was approximately $193.8 million, which was based upon the closing price of $13.91 per share as reported by the New York Stock Exchange.

As of October 31, 2013, the Registrant had 16,675,477 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the Registrant's Definitive Proxy Statement for the Annual Meeting of Shareholders, which is scheduled to be held on January 24, 2014, are incorporated by reference in Part III of this Form 10-K.

FranklinCovey Co.
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PART I

ITEM 1. BUSINESS

Disclosure Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended, relating to our operations, results of operations, and other matters that are based on our current expectations, estimates, assumptions, and projections. Words such as "may," "will," "should," "likely," "anticipates," "expects," "intends," "plans," "projects," "bel "estimates," and similar expressions are used to identify these forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties, and assumptions that are difficult to predict. Forward-looking statements are based upon assumptions as to future events that might not prove to be accurate. Actual outcomes and results could differ materially from what is expressed or forecast in these forward-looking statements. Risks, uncertainties, and other factors that might cause such differences, some of which could be material, include, but are not limited to, the factors discussed under the section of this report entitled "Risk Factors."

General

Franklin Covey Co. (we, us, our, the Company, or FranklinCovey) is a global company specializing in performance improvement. We help organizations achieve results that require a change in human behavior and our mission is to "enable greatness in people and organizations everywhere." We believe that our results-driven principle-centered content is a competitive advantage in the marketplace. From the foundational work of Dr. Stephen R. Covey in leadership and Hyrum W. Smith in productivity, we have developed deep expertise that extends to helping organizations and individuals achieve lasting behavioral change is seven crucial areas: Leadership, Execution, Productivity, Trust, Sales Performance, Customer Loyalty, and Education. We have over 660 employees worldwide delivering these principle-based curriculums and effectiveness tools to our customers. Our consolidated net sales for the fiscal year ended August 31, 2013 totaled $190.9 million and our shares of common stock are traded on the New York Stock Exchange (NYSE) under the ticker symbol "FC."

We operate globally with one common brand and business model designed to enable us to provide clients around the world with the same high level of service. To achieve this level of service we operate four regional sales offices in the United States; an office that specializes in sales to governmental entities; wholly owned subsidiaries in Australia, Japan, and the United Kingdom; and we contract with licensee partners who deliver our content and provide services in over 140 other countries and territories around the world.

Our business-to-business service utilizes our expertise in training, consulting, and technology that is designed to help our clients define great performance and execute at the highest levels. We also provide clients with training in management skills, relationship skills, and individual effectiveness, and we can provide personal-effectiveness literature and electronic educational solutions to our clients as needed.

Our fiscal year ends on August 31 of each year. Unless otherwise noted, references to fiscal years apply to the 12 months ended August 31 of the specified year.

Services Overview

Our mission is to “enable greatness in people and organizations everywhere,” and we believe that we are experts at solving certain pervasive, intractable problems, each of which requires a change in human behavior. As we deliver our solutions to these problems, we believe there are four important characteristics that distinguish us from our competitors.

1. World Class Content – Rather than rely on “flavor of the month” training fads, our content is principle centered and based on natural laws of human behavior and effectiveness. Our content is designed to build new skillsets, establish new mindsets,

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and provide enabling toolsets. The Company's content is well researched, subjected to numerous field beta tests, and improved through a proven development process.

2. Breadth and Scalability of Delivery Options – We have a wide range of content delivery options, including: on-site training, training led through certified facilitators, on-line learning, blended learning, intellectual property licenses, and organization-wide transformational processes, including consulting and coaching.

3. Global Capability – We operate four regional sales offices in the United States; wholly owned subsidiaries in Australia, Japan, and the United Kingdom; and contract with licensee partners who deliver our content in over 140 other countries and territories around the world. This capability allows us to deliver content to a wide range of customers, from large, multinational corporations to smaller, local entities.

4. Transformational Impact and Reach – We hold ourselves responsible for and measure ourselves by our clients' achievement of transformational results.

Our content, tools, and methodologies are organized into key practice areas, each offering targeted solutions that are designed to drive these four outcomes. We have divided our curriculums into the following seven major practices:

1. Leadership
2. Execution
3. Productivity
4. Trust
5. Sales Performance
6. Customer Loyalty
7. Education

Our practices are designed to provide world-class content and delivery, including best-selling books and audio, innovative and widely recognized thought leadership, multiple delivery and teaching methods, a practice-centric focused sales force, and practice-specific marketing support. These elements allow us to offer our clients training and consulting solutions that are designed to improve individual and organizational behaviors, deliver content that adapts to an organization's unique needs, and provide meaningful improvements in our clients' business performance.

The following description of our practices and associated content describes what our offerings are designed to provide to our clients. The description should not be viewed as a warranty or guarantee of results. Further information about our content and services can be found on our website at www.franklincovey.com. However, the information contained in, or that can be accessed through, our website does not constitute a part of this annual report.

1. Leadership

Dr. Stephen R. Covey, one of our co-founders, once said, "Leadership is communicating to people their worth and potential so clearly that they come to see it in themselves." Leadership has a profound impact on performance, and is a key lever that mobilizes teams to produce results. We believe that in today's fast-paced world, the most effective leaders address constant change with timeless principles of effectiveness and unwavering character. Leaders recognize that great leadership is not only about what they do, but about who they are. Franklin Covey's Leadership practice develops leaders at three levels: personal, team, and organization-wide.

Franklin Covey's Leadership practice is designed to develop leaders who achieve sustained superior performance, engage employees to achieve the most critical objectives, win the loyalty of customers and other stakeholders, and build a strategic advantage by identifying and making a distinctive contribution. Our leadership solutions are comprehensive and include the following:

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The 7 Habits of Highly Effective People®—Signature Program
Based on the principles found in Dr. Stephen R. Covey's best-selling business book, The 7 Habits of Highly Effective People, this program is designed to drive organizational success by helping participants adopt the paradigms and behaviors of effective people.

The 7 Habits for Managers®
FranklinCovey's The 7 Habits for Managers solution teaches the fundamentals of leading today's mobile knowledge worker. Both new and experienced managers acquire a set of tools to help them meet today's management challenges, including conflict resolution, prioritization, performance management, accountability and trust, execution, collaboration, and team and employee development.

The 7 Habits of Highly Effective People®: Introductory Workshop for Associates
This workshop for employees at all levels is designed to help employees become empowered with new knowledge, skills, and tools to confront issues, work as a team, increase accountability, and raise the bar on what they can achieve.

Leadership: Great Leaders, Great Teams, Great Results™
This comprehensive offering contains the entire core content of Franklin Covey's Leadership practice. The workshop features videos that present the latest on our own research and thinking, along with the best thinking of other leadership experts.

Leadership Modular Series
Drawn from the content of our leadership-development program, the Leadership Modular Series comprises seven stand-alone modules that teach imperatives leaders can apply to create a work environment that addresses the needs of the knowledge worker three to four hours at a time.

Executive Coaching
We offer senior executives a coaching experience created in partnership with Columbia University, which includes methodologies approved by the International Coach Federation (ICF). In one-on-one or team sessions, we leverage content, methodology, and tools to guide leaders in discovering and unleashing the potential they already possess.

2. Execution

Execution remains one of the toughest challenges organizations face today. We believe that our Execution practice provides organizations with the paradigms, practices, and tools to address these challenges. We work directly with leadership teams to help them clarify the few "wildly important goals" that the execution of their strategy requires, identify the few key measures that lead to the achievement of these goals, create clear and compelling scoreboards, and build a culture and cadence of accountability so that the goals are achieved. Our key execution offerings include:

The 4 Disciplines of Execution®: Manager Certification
The purpose of manager certification includes helping managers not only develop specific skills, but to also create actual work plans. We help managers leave the session with clearly identified goals and measures, a draft scoreboard for their team, and an accountability plan to help everyone move forward on the goals.

My4DX.com
My4DX.com is designed to fully support the Company's 4 Disciplines of Execution methodology. This versatile on-line service assists organizations in developing and tracking progress on "wildly important goals," and provides a cadence of accountability to both organizations and individuals.

What the CEO Wants You to Know: Building Business Acumen™
This training supports the Execution practice disciplines by helping individuals and teams better understand the financial engine of their business and how they can positively affect it. The

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material is based on the popular book What the CEO Wants You to Know, by leading CEO and executive coach Ram Charan.

3. Productivity

Another of Franklin Covey's co-founders, Hyrum W. Smith, taught that adherence to specified natural laws of behavior would result in increased productivity and inner peace. In today's fast-paced world of "doing more with less," we believe that workforce productivity and engagement can be a competitive advantage. Today's leaders and workers are required to make more decisions every day than ever before while their attention is under unprecedented attack. Franklin Covey's Productivity practice equips individuals, teams, and organizations to consistently make intentional high-value decisions and execute on high-impact goals and projects with excellence in the midst of unlimited choices, demands, and distractions. Our Productivity practice offerings include the following curriculums:

The 5 Choices to Extraordinary Productivity™
This program is designed to provide the in-depth skills, knowledge and attitudes that allow individual contributors, teams and organizations to be able to identify, validate, and act on what's most important. Instead of trying to get everything done, participants focus on how to get the right things done. This discernment enables them to make wiser decisions, harness technology to enhance workflow, and put their finest attention and energy on executing what matters most.

Project Management
Our project management workshop teaches a four-step process for skillfully managing projects large or small. This proven approach helps project managers and their teams craft and deliver high-quality projects on time and within budget.

Writing Advantage®
The FranklinCovey Writing Advantage program teaches participants how to set quality writing standards that help people increase productivity, resolve issues, avoid errors, and heighten credibility. Participants learn how to write faster with more clarity, and gain skills for revising and fine-tuning every style of document.

Presentation Advantage®
With our Presentation Advantage solution, participants learn how to craft presentations around essential objectives, present key concepts and ideas with power and enthusiasm, design and present effective visuals, and employ techniques for polishing and mastering presentation delivery.

4. Trust

We believe that trust is the hallmark of effective leaders, teams, and organizations. Trust-related problems like bureaucracy, fraud, and excessive turnover discourage productivity, divert resources, and chip away at a company's brand. On the other hand, leaders who make building trust an explicit goal of their job gain strategic advantages—accelerating growth, enhancing innovation, improving collaboration and execution, and increasing shareholder value. Our Trust practice is built on The New York Times best-selling book, The Speed of Trust by Stephen M. R. Covey, and includes offerings to help leaders and team members develop the competencies to make trust a strategic advantage.

Leading at the Speed of Trust®
This program engages leaders at all levels in identifying and closing the trust gaps in their organization. Instead of paying "trust taxes," organizations can begin to realize "trust dividends." We believe that doing business at the "speed of

trust" lowers costs, speeds up results, and increases profits and influence.

Working at the Speed of Trust®—For Associates

This workshop helps individual contributors identify and address "trust gaps" in their personal credibility and in their relationships at work. Using examples from their work and focusing on real-world issues, participants discover how to communicate transparently with peers and managers,

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improve their track record of keeping commitments, focus on improving internal “customer service” with others who depend on their work, and much more.

5. Sales Performance

We believe that sales performance is about helping clients succeed. FranklinCovey provides an approach that delivers the “what to do” and “how to do” for mutual seller/buyer benefits. Through consulting, training, and coaching, our Sales Performance practice helps sales leaders and salespeople act as genuine trusted business advisors who create value and help clients succeed.

Helping Clients Succeed® is a mind-set, skill-set, and tool-set for becoming client-centered. It is a way of thinking, being, and behaving for sales professionals. We believe that it removes the stigmas that come with sales, and we believe that it removes the adversarial interplay between sellers and buyers. It is also a process for creating candid dialogue, fresh thinking, innovative collaboration, insightful decision making, and robust execution—with clients and within an organization. With our suite of consultative sales-training solutions, we believe clients can transform their salespeople into trusted business advisors who focus on helping their clients succeed, resulting in increased sales, shortened sales cycles, improved margins, and satisfied clients.

6. Winning Customer Loyalty®

Our Customer Loyalty practice helps leaders of multiunit organizations create a culture where employees are engaged and equipped to deliver great customer experiences. To do this, customer loyalty specialists draw from an array of offerings to craft a solution that works with each company’s culture, operating environment, and strategic vision. The Company has partnered with Frank Reichheld, creator of the Net Promoter SystemTM, to help organizations measure and improve customer and employee loyalty through accurate metrics and world-class training and development.

Our Customer Loyalty practice is designed to help organizations:

- Collect statistically valid feedback from a representative sample of customers and employees.
- Increase the visibility of customer-service metrics so managers get real time feedback.
- Apply an accountability process at frontline teams so they deliver exceptional customer service at a much higher percentage of the time.
- Measure and improve employee engagement.

7. Education

The FranklinCovey Education practice is dedicated to helping educational organizations build a culture that will produce great results. Our offerings address all grade levels and help faculty and students develop the critical leadership and effectiveness skills they will need to succeed in a knowledge-based, networked world.

Primary Education Solutions: The Leader in Me®
The Leader in Me process is designed to be integrated into a school’s core curriculum and everyday language. The methodology is designed to become part of the culture, gain momentum, and help to produce improved results year after year. We believe this methodology benefits schools and students in the following ways:

- Increases academic performance.
- Improves school culture.
- Decreases disciplinary issues.

- Increases teacher engagement and parent involvement.

Based on Dr. Stephen R. Covey’s best-selling book The 7 Habits of Highly Effective People, The Leader in Me is a whole-school transformation process that integrates principles of leadership and

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effectiveness into school curriculum using every day, age-appropriate language. At August 31, 2013 there were over 1,500 schools worldwide participating in The Leader in Me program.

Secondary Education Solutions: The 7 Habits of Highly Effective Teens®
The Introduction to The 7 Habits of Highly Effective Teens® workshop from FranklinCovey, based on the best-selling book of the same name by Sean Covey and the No. 1 best-selling business book The 7 Habits of Highly Effective People, gives young people a set of tools to deal with life's challenges. The training is a means for educators, administrators, and superintendents to help improve student performance; reduce conflicts, disciplinary problems, and truancy; and enhance cooperation and teamwork among parents, teens, and teachers.

Delivery Methods

We have multiple methods to deliver our world-class content to our clients that are designed to provide our customers with a learning environment that suits their needs. Our primary delivery methods include the following:

- Onsite Presentations
- Client Facilitators
- International Licensees
- E-Learning
- Public Workshops
- Custom Solutions
- Intellectual Property Licenses
- Media Publishing

Onsite Presentations

We employ highly-talented consultants and presenters to deliver our curriculums in person at client locations. Based around the world, our consultants represent diverse, global industry experience and can tailor their delivery to meet a client's precise needs. Whether the need is for consulting, training, or customized keynote speeches, our consultants can deliver our curriculums to any level of an organization, from the C-suite to a team or department. We believe that our delivery consultants provide high-quality services and are a competitive advantage in the marketplace.

Client Facilitators

For organizations seeking cost-effective ways to implement solutions involving large populations of managers and frontline workers, FranklinCovey certifies on-site client facilitators to teach our content and adapt it to our client's organizational needs. We have thousands of client facilitators around the world who are certified to teach in different content areas. In order to become a client facilitator, an individual must become certified to teach our curriculums through a two-step process that is designed to ensure that these trained personnel can deliver our content in a professional and meaningful manner.

International Licensees

In foreign countries where we do not have an office, our content is delivered through independent licensees, who, under strict guidelines, may translate and adapt our curriculums to local preferences and customs, if necessary. Our licensee partners deliver our curriculums and provide services in over 140 other countries and territories around the world. These licensee partners allow us to deliver the same high quality content to clients that have multinational operations or in countries that have specific cultural requirements. Our licensee partners pay us a royalty based on the programs and content delivered.

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E-Learning

Our E-Learning capabilities bring FranklinCovey to clients in innovative ways that transcend traditional E-learning solutions. Franklin Covey’s online curriculums allow participants to save travel time and expenses as well as providing the opportunity to view our curriculums in smaller time increments.

Public Workshops

Each year, we offer a number of training events, primarily in the United States and Canada, which are open to the public. Prior to the event, we advertise in the geographic region where the event will be held and participants may register for the events in advance. Interested persons may also search for upcoming workshops based on the desired curriculum and register for these workshops through our website at www.franklincovey.com. In addition, our content is also taught by certain professional training firms that also offer events to the public.

Custom Solutions

Whether clients need a program customized, or require a new product developed for their organization, our custom solutions department has the process to build the solution. Customization builds upon our existing content and clients’ unique content by using a specific process to deliver results. Our five-step process (diagnose, design, develop, deliver, and learn) lowers development costs and strives to improve our clients’ return on investment.

Intellectual Property Licenses

For clients that want to utilize our content in their internal training environments, we offer intellectual property licenses to allow further customization of our content to specific client needs.

Media Publishing

Our Media Publishing department extends our influence into both traditional publishing and new media channels. FranklinCovey Media Publishing offers books, e-books, audio products, downloadable and paper-based tools, and content-rich software applications for smart phones and other handheld devices to consumer and corporate markets.

Industry Information

According to the Training magazine 2013 Training Industry Survey, the total size of the U.S. training industry is estimated to be $55.4 billion, which is a one percent decline from the prior year. One of our competitive advantages in this highly fragmented industry stems from our fully integrated principle-centered training curriculums, measurement methodologies, and implementation tools to help organizations and individuals measurably improve their effectiveness. This advantage allows us to deliver not only training to both corporations and individuals, but also to implement the training through the use of powerful behavior-changing tools with the capability to then measure the impact of the delivered content and solutions.

Over our history, we have provided content, services, and products to 97 of the Fortune 100 companies and more than 75 percent of the Fortune 500 companies. We also provide content and services to a number of U.S. and foreign governmental agencies, as well as numerous educational institutions. In addition, we provide training curricula, measurement services and implementation tools internationally, either through directly operated offices, or through independent licensed providers.

Enterprise Information

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

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presented below. Our U.S./Canada operations are responsible for the sale and delivery of our training and consulting services in the United States and Canada. Our international sales group includes the financial results of our foreign offices and royalty revenues from licensees. Our corporate services information includes leasing income and certain corporate operating expenses (in thousands).

YEAR ENDED AUGUST 31,		2013	Percent change		2012	Percent change		2011
U.S./Canada	$	142,616	14	$	125,183	6	$	118,420
International		44,154	5		42,052	5		40,011
Total		186,770	12		167,235	6		158,431
Corporate services		4,154	29		3,221	36		2,373
Consolidated	$	190,924	12	$	170,456	6	$	160,804

Additional enterprise financial information, including geographical information, can be found in the notes to our consolidated financial statements (Note 17).

Clients

We have a relatively broad base of organizational and individual clients. In our direct offices that serve the United States, Canada, Japan, Australia, and the United Kingdom, we have more than 4,200 organizational clients consisting of corporations, governmental agencies, educational institutions, and other organizations. We have thousands of additional organizational clients throughout the world, which are served through our global licensee partner network, and we believe that our content, in all its forms, delivers results that encourage strong client loyalty. Employees in each of our domestic and international distribution channels focus on helping our clients achieve measurably positive results from utilizing our content. Due to the nature of our business, we do not have a significant backlog of firm orders.

During fiscal 2011, we recognized $16.8 million in sales from our contracts with a division of the United States federal government, which was more than ten percent of our consolidated revenues for the year. During fiscal years 2013 and 2012, none of our clients were responsible for more than ten percent of our consolidated revenues.

Competition

We operate in a highly competitive and rapidly changing global marketplace and compete with a variety of organizations that offer services comparable with those that we offer. The nature of the competition in the performance improvement industry, however, is highly fragmented with few large competitors. Based upon our fiscal 2013 consolidated sales of $190.9 million, we believe that we are a leading competitor in the performance skills and education market. Other significant comparative companies in the performance improvement market are Development Dimensions International, CRA International, Inc., Learning Tree International Inc., GP Strategies Corp., American Management Association, Wilson Learning, Forum Corporation, Corporate Executive Board Co., and the Center for Creative Leadership.

We derive our revenues from a variety of companies with a broad range of sales volumes, governments, educational institutions, and other entities. We believe that the principal competitive factors in the industry in which we compete include the following:

- Quality of services and solutions
- Skills and capabilities of people
- Innovative training and consulting services combined with effective products
- Ability to add value to client operations
- Reputation and client references
- Price
- Availability of appropriate resources
- Global reach and scale

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Given the relative ease of entry into the training market, the number of our competitors could increase, many of whom may imitate existing methods of distribution, or could offer similar content and programs at lower prices. Some of these competitors may have greater financial and other resources than we do. However, we believe that we have several areas of competitive differentiation in our industry. We believe that our competitive advantages include: (1) the quality of our content, as indicated by our strong gross margins, branded content, and best-selling books; (2) the breadth of delivery options we are able to offer to customers for utilizing our content, including live presentations by our own training consultants, live presentations though Company certified client-employed facilitators, web-based presentations, and film-based presentations; (3) our global reach, which allows truly multinational clients to scale our content uniformly across the globe, through our mix of direct offices and our global licensee network; and (4) the significant impact which our solutions can have on our clients' results. Moreover, we believe that we are a market leader in the U.S. in leadership, execution, productivity, and individual effectiveness content. Increased competition from existing and future competitors could, however, have a material adverse effect on our sales and profitability.

Seasonality

Our quarterly results of operations reflect minor seasonal trends primarily because of the timing of corporate training, which is not typically scheduled as heavily during holiday and certain vacation periods. Our fourth fiscal quarter generally has higher sales and income from operations than other fiscal quarters primarily due to increased sales in our Education practice, because both school administration and faculty members are often out of school and available to be trained, and to our relatively strong facilitator sales that typically occur during the quarter.

Quarterly fluctuations may also be affected by other factors including the introduction of new offerings, the addition of new organizational customers, and the elimination of underperforming offerings.

Manufacturing and Distribution

We do not manufacture any of our products. We purchase our training materials and related products from various vendors and suppliers located both domestically and internationally, and we are not dependent upon any one vendor for the production of our training and related materials as the raw materials for these products are readily available. We currently believe that we have good relationships with our suppliers and contractors.

During fiscal 2001, we entered into a long-term contract with HP Enterprise Services (HP) to provide warehousing and distribution services for our training products and related accessories. Our materials are primarily warehoused and distributed from an HP facility located in Des Moines, Iowa.

Trademarks, Copyrights, and Intellectual Property

Our success has resulted in part from our proprietary content, methodologies, and other intellectual property rights. We seek to protect our intellectual property through a combination of trademarks, copyrights, and confidentiality agreements. We claim rights for over 440 trademarks in the United States and foreign countries, and we 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, The 4 Disciplines of Execution, and The 7 Habits. We consider our trademarks and other proprietary rights to be important and material to our business.

We own sole or joint copyrights on our books, manuals, text and other printed information provided in our training programs, and other electronic media products, including audio and video tapes. We may license, rather than sell, facilitator workbooks and other seminar and training materials in order to protect our intellectual property rights therein. We place trademark and copyright notices on our instructional, marketing, and advertising materials. In order to maintain the proprietary nature of our product information, we enter 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

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proprietary rights are important, there can be no assurance that such measures will provide significant protection from competitors.

Employees

One of our most important assets is our people. The diverse and global makeup of our workforce allows us to serve a variety of clients on a worldwide basis. We are committed to attracting, developing, and retaining quality personnel and actively strive to reinforce our employees' commitment to our clients, and to our mission, vision, culture, and values through the creation of a motivational and rewarding work environment.

At August 31, 2013, we had approximately 660 associates located in the United States of America, Canada, Japan, the United Kingdom, and Australia. During fiscal 2001, we outsourced a significant portion of our information technology services, customer service, distribution and warehousing operations to HP. A number of our former employees involved in these operations are now employed by HP to provide those services to FranklinCovey. None of our associates is represented by a union or other collective bargaining group. Management believes that its relations with its associates are good and we do not currently foresee a shortage in qualified personnel needed to operate and grow our business.

Available Information

Our principal executive offices are located at 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331, and our telephone number is (801) 817-1776.

We regularly file reports with the Securities Exchange Commission (SEC). These reports include, but are not limited to, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and security transaction reports on Forms 3, 4, or 5. The public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room located at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains electronic versions of the Company's reports, proxy and information statements, and other information that the Company files with the SEC on its website at www.sec.gov.

The Company makes our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and other reports filed or furnished with the SEC available to the public, free of charge, through our website at www.franklincovey.com. These reports are provided through our website as soon as is reasonably practicable after we file or furnish these reports with the SEC.

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ITEM 1A. RISK FACTORS

Our business environment, current domestic and international economic conditions, and other specific risks may affect our future business decisions and financial performance. The matters discussed below may cause our future results to differ from past results or those described in forward-looking statements and could have a material adverse effect on our business, financial condition, liquidity, results of operations, and stock price, and should be considered in evaluating our Company.

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

Investors should also be aware that while Franklin Covey does, from time to time, communicate with securities analysts, it is against our policy to disclose to them any material non-public information or other confidential commercial information. Accordingly, shareholders should not assume that the Company agrees with any statement or report issued by any analyst irrespective of the content of the statement or report. Furthermore, we do not confirm financial forecasts or projections issued by others. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts, or opinions, such reports are not the responsibility of Franklin Covey Co.

We operate in an intensely competitive industry and our competitors may develop courses that adversely affect our ability to sell our offerings.

The training and consulting services industry is intensely competitive with relatively easy entry. Competitors continually introduce new programs and services that may compete directly with our offerings or that may make our offerings uncompetitive or obsolete. Larger and better capitalized competitors may have superior abilities to compete for clients and skilled professionals, reducing our ability to deliver quality work to our clients. In addition, one or more of our competitors may develop and implement training courses or methodologies that may adversely affect our ability to sell our curriculums and products to new clients. Any one of these circumstances could have an adverse effect on our ability to obtain new business and successfully deliver our services.

Our results of operations could be adversely affected by economic and political conditions and the effects of these conditions on our clients' businesses and their levels of business activity.

Global economic and political conditions affect our clients' businesses and the markets in which they operate. Our financial results are somewhat dependent on the amount that current and prospective clients budget for training. A serious and/or prolonged economic downturn (or continued slow recovery) combined with a negative or uncertain political climate could adversely affect our clients' financial condition and the amount budgeted for training by our clients. These conditions may reduce the demand for our services or depress the pricing of those services and have an adverse impact on our results of operations. Changes in global economic conditions may also shift demand to services for which we do not have competitive advantages, and this could negatively affect the amount of business that we are able to obtain. Such economic, political, and client spending

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conditions are influenced by a wide range of factors that are beyond our control and that we have no comparative advantage in forecasting. If we are unable to successfully anticipate these changing conditions, we may be unable to effectively plan for and respond to those changes, and our business could be adversely affected.

Our business success also depends in part upon continued growth in the use of training and consulting services and the renewal of existing contracts by our clients. In challenging economic environments, our clients may reduce or defer their spending on new services and consulting solutions in order to focus on other priorities. At the same time, many companies have already invested substantial resources in their current means of conducting their business and they may be reluctant or slow to adopt new approaches that could disrupt existing personnel and/or processes. If the growth in the general use of training and consulting services in business or our clients' spending on these items declines, or if we cannot convince our clients or potential clients to embrace new services and solutions, our results of operations could be adversely affected.

In addition, our business tends to lag behind economic cycles and, consequently, the benefits of an economic recovery following a period of economic downturn may take longer for us to realize than other segments of the economy.

Our results of operations may be negatively affected if we cannot expand and develop our services and solutions in response to client demand or if newly developed or acquired services have increased costs.

Our success depends upon our ability to develop and deliver services and solutions that respond to rapid and continuing changes in client needs. We may not be successful in anticipating or responding to these developments on a timely basis, and our offerings may not be successful in the marketplace. The implementation, acquisition, and introduction of new programs and solutions may reduce sales of our other existing programs and services and may entail more risk than supplying existing offerings to our clients. Newly developed or acquired solutions may also require increased royalty payments or carry significant development costs that must be expensed. Any one of these circumstances may have an adverse impact upon our business and results of operations.

Our results of operations and cash flows may be adversely affected if FC Organizational Products LLC is unable to pay the working capital settlement, reimbursable acquisition costs, or reimbursable operating expenses.

According to the terms of the agreements associated with the sale of our consumer solutions business unit assets to FC Organizational Products, LLC (FCOP) that closed in the fourth quarter of fiscal 2008, and an entity in which we own 19.5 percent, we were entitled to receive a $1.2 million payment for working capital delivered on the closing date of the sale and to receive $2.3 million as reimbursement for specified costs necessary to complete the transaction. Payment for these costs was originally due in January 2009, but we extended the due date of the payment at FC Organizational Products' request and obtained a promissory note from FCOP for the amount owed, plus accrued interest. At the time we received the promissory note from FCOP, we believed that we could obtain payment for the amounts owed, based on prior year performance and forecasted financial performance in 2009. However, the financial position of FCOP deteriorated significantly late in fiscal 2009 and the deterioration accelerated throughout fiscal 2010. As a result of its deteriorating financial position, we reassessed the collectability of the promissory note. Based on revised expected cash flows and other operational issues, we recorded a $3.6 million impaired asset charge against these receivables.

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We also receive reimbursement from FCOP for certain operating costs, such as warehousing and distribution costs, which are billed to us by third party providers, and although not required by governing documents or our ownership interest, we have provided working capital and other advances to FCOP. At August 31, 2013 and 2012 we had $7.8 million and $7.1 million receivable from FCOP, which are recorded as assets on our consolidated balance sheets. Although the receivable from FCOP has increased in recent years, we believe that we will obtain payment from FCOP for these receivables. However, if FCOP fails to reimburse us for these costs, and we fail to obtain payment on the promissory note, our future cash flows and results of operations will be adversely affected.

Our work with governmental clients exposes us to additional risks that are inherent in the government contracting process.

Our clients include national, provincial, state, and local governmental entities, and our work with these governmental entities has various risks inherent in the governmental contracting process. These risks include, but are not limited to, the following:

- Governmental entities typically fund projects through appropriated monies. While these projects are often planned and executed as multi-year projects, the governmental entities usually reserve the right to change the scope of or terminate these projects for lack of approved funding and at their discretion. Changes in governmental priorities or other political developments, including disruptions in governmental operations, could result in changes in the scope of, or in termination of, our existing contracts.

- Governmental entities often reserve the right to audit our contract costs, including allocated indirect costs, and conduct inquiries and investigations of our business practices with respect to our government contracts. If the governmental entity finds that the costs are not reimbursable, then we will not be allowed to bill for those costs or the cost must be refunded to the client if it has already been paid to us. Findings from an audit also may result in our being required to prospectively adjust previously agreed upon rates for our work, which may affect our future margins.

- If a governmental client discovers improper activities in the course of audits or investigations, we may become subject to various civil and criminal penalties and administrative sanctions, which may include termination of contracts, forfeiture of profits, suspension of payments, fines and suspensions or debarment from doing business with other agencies of that government. The inherent limitations of internal controls may not prevent or detect all improper or illegal activities, regardless of their adequacy.

- Political and economic factors such as pending elections, revisions to governmental tax policies, sequestration, debt ceiling negotiations, and reduced tax revenues can affect the number and terms of new governmental contracts signed.

The occurrences or conditions described above could affect not only our business with the particular governmental agency involved, but also our business with other agencies of the same or other governmental entities. Additionally, because of their visibility and political nature, governmental contracts may present a heightened risk to our reputation. Any of these factors could have an adverse effect on our business or our results of operations.

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Our global operations pose complex management, foreign currency, legal, tax, and economic risks, which we may not adequately address.

We have offices in Australia, Japan, and the United Kingdom. We also have licensed operations in numerous other foreign countries. As a result of these foreign operations and their impact upon our results of operations, we are subject to a number of risks, including:

- Restrictions on the movement of cash
- Burdens of complying with a wide variety of national and local laws
- The absence in some jurisdictions of effective laws to protect our intellectual property rights
- Political instability
- Currency exchange rate fluctuations
- Longer payment cycles
- Price controls or restrictions on exchange of foreign currencies

We may experience foreign currency gains and losses.

Our sales outside of the United States totaled $52.3 million, or 27 percent of consolidated sales, for the fiscal year ended August 31, 2013. If our international operations grow and become a larger component of our overall financial results, our revenues and operating results may be significantly adversely affected when the dollar strengthens relative to other currencies and may be favorably affected when the dollar weakens. In order to manage a portion of our foreign currency risk, we may make limited use of foreign currency derivative contracts to hedge certain transactions and translation exposure. However, there can be no guarantee that our foreign currency risk management strategy will be effective in reducing the risks associated with foreign currency transactions and translation.

Our global operations expose us to numerous and sometimes conflicting legal and regulatory requirements, and violation of these regulations could harm our business.

Because we provide services to clients in many countries, we are subject to numerous, and sometimes conflicting, regulations on matters as diverse as import/export controls, content requirements, trade restrictions, tariffs, taxation, sanctions, government affairs, internal and disclosure control obligations, data privacy, and labor relations. Violations of these regulations in the conduct of our business could result in fines, criminal sanctions against us or our officers, prohibitions on doing business, and damage to our reputation. Violations of these regulations in connection with the performance of our obligations to our clients also could result in liability for monetary damages, fines, unfavorable publicity, and allegations by our clients that we have not performed our contractual obligations. Due to the varying degrees of development of the legal systems of the countries in which we operate, local laws may be insufficient to protect our rights.

In many parts of the world, including countries in which we operate, practices in the local business community might not conform to international business standards and could violate anticorruption regulations, including the United States Foreign Corrupt Practices Act, which prohibits giving anything of value intended to influence the awarding of government contracts. Although we have policies and procedures to ensure legal and regulatory compliance, our employees, licensee operators, and agents could take actions that violate these requirements. Violations of these regulations could subject us to criminal or civil

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enforcement actions, including fines and suspension or disqualification from United States federal procurement contracting, any of which could have an adverse effect on our business.

We could have liability or our reputation could be damaged if we do not protect client data or if our information systems are breached.

We are dependent on information technology networks and systems to process, transmit, and store electronic information and to communicate among our locations around the world and with our clients. Security breaches of this infrastructure could lead to shutdowns or disruptions of our systems and potential unauthorized disclosure of confidential information. We are also required at times to manage, utilize, and store sensitive or confidential client or employee data. As a result, we are subject to numerous U.S. and foreign jurisdiction laws and regulations designed to protect this information, such as the various U.S. federal and state laws governing the protection of individually identifiable information. If any person, including any of our associates, negligently disregards or intentionally breaches our established controls with respect to such data or otherwise mismanages or misappropriates that data, we could be subject to monetary damages, fines, and/or criminal prosecution. Unauthorized disclosure of sensitive or confidential client or employee data, whether through systems failure, employee negligence, fraud, or misappropriation could damage our reputation and cause us to lose clients.

Our business could be adversely affected if our clients are not satisfied with our services.

The success of our business model depends significantly on our ability to attract new work from our base of existing clients, as well as new work from prospective clients. Our business model also depends on the relationships our senior executives and sales personnel develop with our clients so that we can understand our clients' needs and deliver services and solutions that are specifically tailored to address those needs. If a client is not satisfied with the quality of work performed by us, or with the type of services or solutions delivered, then we may incur additional costs to remediate the situation, the profitability of that work might be decreased, and the client's dissatisfaction with our services could damage our ability to obtain additional work from that client. In particular, clients that are not satisfied might seek to terminate existing contracts prior to their scheduled expiration date and could direct future business to our competitors. In addition, negative publicity related to our client relationships, regardless of its accuracy, may further damage our business by affecting our ability to compete for new contracts with current and prospective clients.

We may fail to meet analyst expectations, which could cause the price of our stock to decline.

Our common stock is publicly traded on the New York Stock Exchange, and at any given time various securities analysts follow our financial results and issue reports on us. These periodic reports include information about our historical financial results as well as the analysts' estimates of our future performance. The analysts' estimates are based on their own opinions and are often different from our estimates or expectations. If our operating results are below the estimates or expectations of public market analysts and investors, our stock price could decline. If our stock price is volatile, we may become involved in securities litigation following a decline in prices. Any litigation could result in substantial costs and a diversion of management's attention and resources that are needed to successfully run our business.

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Our future quarterly operating results are subject to factors that can cause fluctuations in our stock price.

Historically, our stock price has experienced significant volatility. We expect that our stock price may continue to experience volatility in the future due to a variety of potential factors that may include the following:

- Fluctuations in our quarterly results of operations and cash flows
- Increased overall market volatility
- Variations between our actual financial results and market expectations
- Changes in our key balances, such as cash and cash equivalents
- Currency exchange rate fluctuations
- Unexpected asset impairment charges
- Lack of, or increased, analyst coverage

In addition, the stock market has recently experienced substantial price and volume fluctuations that have impacted our stock and other equity issues in the market. These factors, as well as general investor concerns regarding the credibility of corporate financial statements, may have an adverse effect upon our stock price in the future.

The sale of a large number of common shares by Knowledge Capital could depress the market price of our common stock.

Knowledge Capital Investment Group (Knowledge Capital), a related party primarily controlled by a member of our Board of Directors, held a warrant to purchase 5.9 million shares of our common stock. Knowledge Capital exercised its warrant at various times on a net share basis and received 2.2 million shares of our common stock. They currently hold 3.3 million shares, or approximately 20 percent, of our outstanding common shares. Approximately 1.1 million of these shares are currently available for resale, subject to the requirements of U.S. securities laws. The sale or prospect of the sale of a substantial number of these shares could have an adverse effect on the market price of our common stock.

Our profitability could suffer if we are unable to control our operating costs.

Our future success and profitability depend in part on our ability to achieve an appropriate cost structure and to improve our efficiency in the highly competitive services industry in which we compete. We regularly monitor our operating costs and develop initiatives and business models that are designed to improve our profitability. Our recent initiatives have included revisions to existing processes and procedures, asset sales, exiting non-core businesses, and other internal initiatives designed to reduce our operating costs. If we are unable to achieve targeted business model cost levels, our competitiveness and profitability may decrease.

Our profitability will suffer if we are not able to maintain our pricing and utilization rates.

The profit margin on our services is largely a function of the rates we are able to recover for our services and the utilization, or chargeability, of our trainers, client partners, and consultants. Accordingly, if we are unable to maintain sufficient pricing for our services or an appropriate utilization rate for our training professionals without corresponding cost reductions, our profit margin and overall profitability will suffer. The rates that we are able to recover for our services are affected by a number of factors that we may be unable to control, including:

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- Our clients' perceptions of our ability to add value through our programs and content
- Competition
- General economic conditions
- Introduction of new programs or services by us or our competitors
- Our ability to accurately estimate, attain, and sustain engagement sales, margins, and cash flows over longer contract periods

Our utilization rates are also affected by a number of factors, including:

- Seasonal trends, primarily as a result of scheduled training
- Our ability to forecast demand for our products and services and thereby maintain an appropriate headcount in our employee base
- Our ability to manage attrition

During recently completed periods we have maintained favorable utilization rates. However, there can be no assurance that we will be able to maintain favorable utilization rates in future periods. Additionally, we may not achieve a utilization rate that is optimal for us. If our utilization rate is too high, it could have an adverse effect on employee engagement and attrition. If our utilization rate is too low, our profit margin and profitability may suffer.

If we are unable to attract, retain, and motivate high-quality employees, including training consultants and other key training representatives, we will not be able to compete effectively and will not be able to grow our business.

Our success and ability to grow are dependent, in part, on our ability to hire, retain, and motivate sufficient numbers of talented people with the increasingly diverse skills needed to serve our clients and grow our business. Competition for skilled personnel is intense at all levels of experience and seniority. To address this competition, we may need to further adjust our compensation practices, which could put upward pressure on our costs and adversely affect our profit margins. At the same time, the profitability of our business model is partially dependent on our ability to effectively utilize personnel with the right mix of skills and experience to effectively deliver our programs and content. There is a risk that at certain points in time and in certain geographical regions, we will find it difficult to hire and retain a sufficient number of employees with the skills or backgrounds we require, or that it will prove difficult to retain them in a competitive labor market. If we are unable to hire and retain talented employees with the skills, and in the locations, we require, we might not be able to deliver our content and services. If we need to re-assign personnel from other areas, it could increase our costs and adversely affect our profit margins.

In order to retain key personnel, we continue to offer a variable component of compensation, the payment of which is dependent upon our sales performance and profitability. We adjust our compensation levels and have adopted different methods of compensation in order to attract and retain appropriate numbers of employees with the necessary skills to serve our clients and grow our business. We may also use share-based performance incentives as a component of our executives' compensation, which may affect amounts of cash compensation. Variations in any of these areas of compensation may adversely impact our operating performance.

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We depend on key personnel, the loss of whom could harm our business.

Our future success will depend, in part, on the continued service of key executive officers and personnel. The loss of the services of any key individuals could harm our business. Our future success also depends on our ability to identify, attract, and retain additional qualified senior personnel. Competition for such individuals in our industry is intense, and we may not be successful in attracting and retaining such personnel.

We have only a limited ability to protect our intellectual property rights, which are important to our success.

Our financial success depends, in part, upon our ability to protect our proprietary curriculums and other intellectual property. The existing laws of some countries in which we provide services might offer only limited protection of our intellectual property rights. To protect our intellectual property, we rely upon a combination of confidentiality policies, nondisclosure and other contractual arrangements, as well as patent, copyright, and trademark laws. The steps we take in this regard may not be adequate to prevent or deter infringement or other misappropriation of our intellectual property, and we might not be able to detect unauthorized use of, or take appropriate and timely steps to enforce, our intellectual property rights, especially in foreign jurisdictions.

The loss of proprietary content or the unauthorized use of our intellectual property may create greater competition, loss of revenue, adverse publicity, and may limit our ability to reuse that intellectual property for other clients. Any limitation on our ability to provide a service or solution could cause us to lose revenue-generating opportunities and require us to incur additional expenses to develop new or modified solutions for future engagements.

If we are unable to collect our accounts receivable on a timely basis, our results of operations and cash flows could be adversely affected.

Our business depends on our ability to successfully obtain payment from our clients of the amounts they owe us for services performed. We evaluate the financial condition of our clients and usually bill and collect on relatively short cycles. We maintain allowances against our receivables and unbilled services that we believe are adequate to reserve for potentially uncollectible amounts. However, actual losses on client balances could differ from those that we currently anticipate and, as a result, we might need to adjust our allowances. In addition, there is no guarantee that we will accurately assess the creditworthiness of our clients. Macroeconomic conditions could also result in financial difficulties for our clients, and as a result could cause clients to delay payments to us, request modifications to their payment arrangements that could increase our receivables balance, or not pay their obligations to us. Timely collection of client balances also depends on our ability to complete our contractual commitments and bill and collect our invoiced revenues. If we are unable to meet our contractual requirements, we might experience delays in collection of and/or be unable to collect our client balances, and if this occurs, our results of operations and cash flows may be adversely affected.

We may need additional capital in the future, and this capital may not be available to us on favorable terms or at all.

We may need to raise additional funds through public or private debt offerings or equity financings in order to:

- Develop new services, programs, or offerings

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- Take advantage of opportunities, including expansion of the business
- Respond to competitive pressures

Going forward, we will continue to incur costs necessary for the day-to-day operation and potential growth of the business and may use our available revolving line of credit facility and other financing alternatives, if necessary, for these expenditures. We extended the maturity date on our existing lending arrangement during fiscal 2013 to March 2016 and expect to renew our lending agreement on an annual basis to maintain the three-year availability of this credit facility. Additional potential sources of liquidity available to us include factoring receivables, issuance of additional equity, or issuance of debt from public or private sources. If necessary, we will evaluate all of these options and select one or more of them depending on overall capital needs and the associated cost of capital.

Any additional capital raised through the sale of equity could dilute current shareholders' ownership percentage in us. Furthermore, we may be unable to obtain the necessary capital on terms or conditions that are favorable to us, or at all.

The Company's use of accounting estimates involves judgment and could impact our financial results.

Our most critical accounting estimates are described in Management's Discussion and Analysis found in Item 7 of this report under the section entitled "Use of Estimates and Critical Accounting Policies." In addition, as discussed in various footnotes to our financial statements as found in Item 8, we make certain estimates for loss contingencies, including decisions related to legal proceedings and reserves. Because, by definition, these estimates and assumptions involve the use of judgment, our actual financial results may differ from these estimates.

Our strategy of outsourcing certain functions and operations may fail to reduce our costs for these services and may increase our risks.

We have an outsourcing contract with HP Enterprise Systems (HP and formerly Electronic Data Systems) to provide warehousing, distribution, and information system operations. Under the terms of the outsourcing contract and its addendums, HP provides warehousing and distribution services and supports our various information systems. Due to the nature of our outsourced operations, we are unable to exercise the same level of control over outsourced functions and the actions of HP employees in outsourced roles as our own employees. As a result, the inherent risks associated with these outsourced areas of operation may be increased.

We have significant intangible asset, goodwill, and long-term asset balances that may be impaired if cash flows from related activities decline.

At August 31, 2013 we had $60.7 million of intangible assets, which were primarily generated from the fiscal 1997 merger with the Covey Leadership Center, and $16.1 million of goodwill. Our intangible assets are evaluated for impairment based qualitative factors or upon cash flows (definite-lived intangible assets) and estimated royalties from revenue streams (indefinite-lived intangible assets) if necessary. Our goodwill is evaluated through qualitative factors and by comparing the fair value of the reporting unit to the carrying value of the goodwill balance if necessary. Our intangible assets, goodwill, and other long-term assets may become impaired if the corresponding cash flows associated with these assets declines in future periods or if our market capitalization declines significantly in future periods. Although our current sales, cash flows, and market capitalization are sufficient to support the carrying basis of these long-lived assets, if our sales, cash flows, or common stock price decline, we may be faced with significant asset impairment charges that would have an adverse impact upon our results of operations.

Failure to comply with the terms and conditions of our credit facility may have an adverse effect upon our business and operations.

Our line of credit facility requires us to be in compliance with customary non-financial terms and conditions as well as specified financial ratios. Failure to comply with these terms and conditions or maintain adequate financial performance to comply with specific financial ratios entitles the lender to certain remedies, including the right to immediately call due any amounts outstanding on the line of credit or term loan. Such events would have an adverse effect upon our business and operations as there can be no assurance that we may be able to obtain other forms of financing or raise additional capital on terms that would be acceptable to us.

We may have exposure to additional tax liabilities.

As a multinational company, we are subject to income taxes as well as non-income based taxes in both the United States and various foreign tax jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes and other tax liabilities. In the normal course of a global business, there are many intercompany transactions and calculations where the ultimate tax determination is uncertain. As a result, we are routinely subject to audits by various taxing authorities. Although we believe that our tax estimates are reasonable, we cannot guarantee that the final determination of these tax audits will not be different from what is reflected in our historical income tax provisions and accruals.

We are also subject to non-income taxes such as payroll, sales, use, value-added, and property taxes in both the United States and various foreign jurisdictions. We are routinely audited by tax authorities with respect to these non-income taxes and may have exposure from additional non-income tax liabilities.

International hostilities, terrorist activities, and natural disasters may prevent us from effectively serving our clients and thus adversely affect our operating results.

Acts of terrorist violence, armed regional and international hostilities, and international responses to these hostilities, natural disasters, global health risks or pandemics, or the threat of or perceived potential for these events, could have a negative impact on our directly owned or licensee operations. These events could adversely affect our clients' levels of business activity and precipitate sudden significant changes in regional and global economic conditions and cycles. These events also pose significant risks to our people and to physical facilities and operations around the world, whether the facilities are ours or those of our alliance partners or clients. By disrupting communications and travel and increasing the difficulty of obtaining and retaining highly skilled and qualified personnel, these events could make it difficult or impossible for us or our licensee partners to deliver services to clients. Extended disruptions of electricity, other public utilities, or network services at our facilities, as well as system failures at, or security breaches in, our facilities or systems, could also adversely affect our ability to serve our clients. While we plan and prepare to defend against each of these occurrences, we might be unable to protect our people, facilities, and systems against all such occurrences. We generally do not have insurance for losses and interruptions caused by terrorist attacks, conflicts, and wars. If these disruptions prevent us from effectively serving our clients, our operating results could be adversely affected.

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Ineffective internal controls could impact our business and operating results.

Our internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results may be harmed and we could fail to meet our financial reporting obligations.

New or more stringent governmental regulations could adversely affect our business.

Increased government regulations to limit carbon dioxide and other greenhouse gas emissions as a result of concern over climate change may result in increased compliance costs and other financial obligations for us. We rely on the ability of our consultants and salespeople to travel to client destinations using automobiles and jet aircraft, which use fossil fuels. Legislation, regulation, or additional taxes affecting the cost of these inputs could adversely affect our profitability.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

Our principal executive offices are located in Salt Lake City, Utah and as of August 31, 2013, all of the facilities used in our operations are leased. Our leased facilities primarily consist of sales and administrative offices both in the United States and various countries around the world. We also lease warehouse and distribution space at independent facilities in certain foreign countries. Our corporate headquarters lease is accounted for as a financing arrangement and all other facility lease agreements are accounted for as operating leases that expire at various dates through the year 2025.

Corporate Facilities
Corporate Headquarters and Administrative Offices:
Salt Lake City, Utah (7 buildings)

U.S./Canada Sales Offices
Regional Sales Offices:
United States (5 locations)

International Facilities
International Administrative/Sales Offices:
Australia (3 locations)
England (1 location)
Japan (1 location)

International Distribution Facilities:
Australia (1 location)
England (1 location)
Japan (1 location)

During fiscal 2013, there were no significant changes to the properties used for our operations. We consider our existing facilities to be in good condition and suitable for our current and anticipated level of operations in the upcoming fiscal year and in future periods.

A significant portion of our corporate headquarters campus located in Salt Lake City, Utah is subleased to multiple unrelated entities.

ITEM 3. LEGAL PROCEEDINGS

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

The Company is also the subject of certain other legal actions, which we consider routine to our business activities. At August 31, 2013, we believe that, after consultation with legal

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counsel, any potential liability to the Company under these other actions will not materially affect our financial position, liquidity, or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed and traded on the New York Stock Exchange (NYSE) under the symbol "FC." The following table sets forth the high and low sale prices per share for our common stock, as reported by the NYSE, for the fiscal years ended August 31, 2013 and 2012.

	High	Low
Fiscal Year Ended August 31, 2013:		
Fourth Quarter	$ 16.70	$ 13.07
Third Quarter	14.60	13.09
Second Quarter	14.50	11.73
First Quarter	13.88	10.34
Fiscal Year Ended August 31, 2012:		
Fourth Quarter	$ 10.79	$ 8.92
Third Quarter	9.85	8.07
Second Quarter	9.97	8.02
First Quarter	10.00	6.25

We did not pay or declare dividends on our common stock during the fiscal years ended August 31, 2013 or 2012. We currently anticipate that we will retain all available funds to repay our obligations, finance future growth and business opportunities, and to repurchase outstanding shares of our common stock.

As of October 31, 2013, the Company had 16,675,477 shares of common stock outstanding, which were held by 649 shareholders of record.

Purchases of Common Stock

The following table summarizes the purchases of our common stock by monthly fiscal periods during the quarter ended August 31, 2013:

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Period	Total Number of Shares Purchased		Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in thousands)	
June 2, 2013 to July 6, 2013	-		$ -	none	$ 9,225	
July 7, 2013 to August 3, 2013	-		-	none	9,225	
August 4, 2013 to August 31, 2013	54		16.03	none	9,225	(1)
Total Common Shares	54	(2)	$ 16.03	none		

(1) On March 26, 2012, our Board of Directors approved a plan to repurchase up to $10.0 million of the Company's outstanding common stock. We intend to use available cash in excess of $10.0 million to make the purchases, provided that we have a zero balance on our line of credit facility. All previously existing common stock repurchase plans were canceled and this common share repurchase plan does not have an expiration date. Through August 31, 2013, we have purchased a total of 73,320 shares of our common stock for $0.8 million under the terms of this plan.

(2) Amount represents a transaction to acquire an insignificant number of shares from a former employee and was not considered part of the repurchase plan described above.

Performance Graph

The following graph demonstrates a five-year comparison of cumulative total returns for Franklin Covey Co. common stock, the S&P SmallCap 600 Index, and the S&P 600 Commercial & Professional Services Index. The graph assumes an investment of $100 on August 31, 2008 in each of our common stock, the stocks comprising the S&P SmallCap 600 Index, and the stocks comprising the S&P 600 Commercial & Professional Services Index. Each of the indices assumes that all dividends were reinvested.

The stock performance shown on the performance graph above is not necessarily indicative of future performance. The Company will not make nor endorse any predictions as to our future stock performance.

The performance graph above is being furnished solely to accompany this report on Form 10-K pursuant to Item 201(e) of Regulation S-K, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data presented below should be read in conjunction with our consolidated financial statements and related footnotes as found in Item 8 of this report on Form 10-K.

In the fourth quarter of fiscal 2010, we sold the product sales component of our wholly owned subsidiary in Japan to an unrelated Japan-based paper products company. We determined that the operating results of the Japan product sales component qualified for discontinued operations presentation and we have presented the operating results of the Japan product sales component as discontinued operations for all periods prior to fiscal 2011 that are presented in this report and have adjusted the financial statement information presented below to be consistent with the discontinued operations presentation.

August 31, In thousands, except per-share data	2013	2012	2011	2010	2009
Income Statement Data:					
Net sales	$ 190,924	$ 170,456	$ 160,804	$ 136,874	$ 123,134
Income (loss) from operations	21,614	17,580	11,112	4,038	(11,840)
Net income (loss) from continuing operations before income taxes	19,398	13,747	8,446	1,180	(14,862)
Income tax benefit (provision)	(5,079)	(5,906)	(3,639)	(2,484)	3,814
Income (loss) from continuing operations	14,319	7,841	4,807	(1,304)	(11,048)
Income from discontinued operations, net of tax	-	-	-	548	216
Gain on sale of discontinued operations, net of tax	-	-	-	238	-
Net income (loss)	14,319	7,841	4,807	(518)	(10,832)
Earnings (loss) per share:					
Basic	$ .83	$ .44	$ .28	$ (.04)	$ (.81)
Diluted	.80	.43	.27	(.04)	(.81)
Balance Sheet Data:					

Total current assets	$ 81,108	$ 64,195	$ 52,056	$ 50,278	$ 40,142
Other long-term assets	9,875	9,534	9,353	9,396	11,608
Total assets	189,405	164,080	151,427	149,005	143,878
Long-term obligations	41,100	40,368	39,859	32,988	32,191
Total liabilities	82,899	73,525	72,111	77,970	74,874
Shareholders' equity	106,506	90,555	79,316	71,035	69,004

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ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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, contractual obligations, and the critical accounting policies of Franklin Covey Co. (also referred to as we, us, our, the Company, and FranklinCovey) 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 our financial statements. Our consolidated financial statements and related notes are presented in Item 8 of this report on Form 10-K.

EXECUTIVE SUMMARY

Franklin Covey Co. is a global company focused on individual and organizational performance improvement. Our mission is to “enable greatness in people and organizations everywhere,” and our 660 employees worldwide are organized to help individuals and organizations achieve sustained superior performance through changes in human behavior. Our expertise extends to seven crucial areas: Leadership, Execution, Productivity, Trust, Sales Performance, Customer Loyalty, and Educational improvement. We believe that our clients are able to utilize our content to create cultures whose hallmarks are high-performing, collaborative individuals, led by effective, trust-building leaders who execute with excellence and deliver measurably improved results for all of their key stakeholders.

In the training and consulting marketplace, we believe there are four important characteristics that distinguish us from our competitors.

1. World Class Content – Our content is principle centered and based on natural laws of human behavior and effectiveness. Our content is designed to build new skillsets, establish new mindsets, and provide enabling toolsets. We believe that our content is based on timeless principles, natural laws of human and organizational effectiveness, and research-proven applications.

2. Transformational Impact and Reach – We hold ourselves responsible for and measure ourselves by our clients’ achievement of transformational results. Our commitment to achieving lasting impact extends to all of our clients—from CEOs to elementary school students, and from senior management to front-line workers in corporations, governmental, and educational environments.

3. Breadth and Scalability of Delivery Options – We have a wide range of content delivery options, including: on-site training, training led through certified facilitators, on-line learning, blended learning, intellectual property licenses, and organization-wide transformational processes, including consulting and coaching.

4. Global Capability – We operate four regional sales offices in the United States; wholly owned subsidiaries in Australia, Japan, and the United Kingdom; and contract with licensee partners who deliver our curriculum and provide services in over 140 other countries and territories around the world.

We have some of the best-known offerings in the training industry, including a suite of individual-effectiveness and leadership-development training content based on the best-selling books, The 7 Habits of Highly Effective People, The Speed of Trust, and The 4 Disciplines of Execution, and proprietary content in the areas of Execution, Sales Performance, Productivity, Customer Loyalty, and Education. Our offerings are described in further detail at www.franklincovey.com. The information contained in, or that can be accessed through, our website does not constitute a part of this annual report. These descriptions should not be viewed as a warranty or guarantee of results.

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Explanation of Responses:

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Our financial results for the fiscal year ended August 31, 2013 reflect continued growth and building momentum in the marketplace as we experienced increased sales, improved operating results, and strengthened our financial position during the fiscal year. Our net sales in fiscal 2013 increased to $190.9 million, compared with $170.5 million in fiscal 2012 and $160.8 million in fiscal 2011. Our fiscal 2013 sales represent 12 percent growth compared with fiscal 2012 and 19 percent growth compared with fiscal 2011. Our fiscal 2013 fourth-quarter sales totaled $61.6 million, which is a 21 percent increase over the fourth quarter of fiscal 2012 and represents the strongest quarterly sales performance ever under our current business model. Sales growth was generally broad-based across our primary delivery channels and course offerings during the year. The following table sets forth sales data by category and by our primary delivery channels (in thousands):

YEAR ENDED AUGUST 31,	2013	Percent change	2012	Percent change	2011
Sales by Category:					
Training and consulting services	$ 178,656	13	$ 158,779	5	$ 150,976
Products	8,114	(4)	8,456	13	7,455
Leasing	4,154	29	3,221	36	2,373
	$ 190,924	12	$ 170,456	6	$ 160,804
Sales by Channel:					
U.S./Canada direct	$ 96,899	12	$ 86,698	2	$ 85,397
International direct	29,558	3	28,773	5	27,464
International licensees	15,452	8	14,301	14	12,590
National account practices	37,042	35	27,367	20	22,780
Self-funded marketing	5,866	(30)	8,368	(7)	9,013
Other	6,107	23	4,949	39	3,560
	$ 190,924	12	$ 170,456	6	$ 160,804

Nearly all of our major practices and content groups had increased sales compared with the prior year and we believe that our ongoing investments in curriculum development and increasing the size of our sales force will help us maintain this favorable sales growth momentum.

Our gross profit for fiscal 2013 increased to $129.0 million compared with $112.7 million in fiscal 2012 primarily due to increased sales. Our gross margin, which is gross profit as a percent of sales, increased to 67.6 percent compared with 66.1 percent in fiscal 2012 primarily due to increased facilitator and intellectual property sales, and increased international licensee royalty revenues.

Our operating expenses in fiscal 2013 increased $12.3 million compared with fiscal 2012 primarily due to an $11.7 million increase in selling, general, and administrative expenses and a $0.7 million increase in amortization expense that were partially offset by a $0.1 million decrease in depreciation expense. The increase in selling, general, and administrative expenses was primarily driven by increased commissions and bonuses on higher sales during fiscal 2013 and investments in new sales and sales-support personnel.

Increased sales and improved operating margins combined to increase our fiscal 2013 income from operations by 23 percent to $21.6 million compared with $17.6 million in fiscal 2012. Including the benefit of foreign tax credits, which reduced our effective income tax rate to approximately 26 percent in fiscal 2013, our net income increased 83 percent to $14.3 million, or $.80 per diluted share, in fiscal 2013 compared with $7.8 million, or $.43 per diluted share, in fiscal 2012.

Further details regarding these items can be found in the comparative analysis of fiscal 2013 with fiscal 2012 as discussed within this management's discussion and analysis.

Our liquidity position strengthened during fiscal 2013 and we had $12.3 million of cash and cash equivalents at August 31, 2013 compared with $11.0 million at August 31, 2012. Our net working capital (current assets minus current liabilities) increased to $38.2 million at August 31, 2013 compared with

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$27.5 million at the end of fiscal 2012. For further information regarding our cash flows and liquidity refer to the Liquidity and Capital Resources discussion found later in this management's discussion and analysis.

Business Overview

We believe that the combination of: (1) creating best-in-class content and solutions in each of our practice areas, and continuing to invest in the refinement and expansion of each of our content categories; and (2) significantly increasing the size and capabilities of our various sales and content-delivery channels are the foundation of our long-term strategic growth plan. Each year we make significant investments in the development and enhancement of our existing content, and to develop new services, features, and products. We expect to continue the introduction of new or refreshed content and delivery methods and consider them key to our long-term success. At the same time, we continue to make substantial investments each year to expand the size and capabilities of our sales and delivery forces to take our solutions to market in a way which attracts and retains client organizations.

During the third quarter of fiscal 2013 we acquired substantially all of the assets of NinetyFive 5, LLC (NinetyFive 5). NinetyFive 5 provides sales success training services that complement our existing sales performance content. We believe that the acquisition of NinetyFive 5 and its integration into our Sales Performance practice will be highly synergistic for our clients and we expect NinetyFive 5 to become a key component of our Sale Performance practice in future periods.

Other key factors that influence our operating results include: the size and productivity of our sales force; the number and productivity of our international licensee operations; the number of organizations that are active customers; the number of people trained within those organizations; the continuation or renewal of existing services contracts; the availability of budgeted training spending at our clients and prospective clients, which, in certain content categories, can be significantly influenced by general economic conditions; and our ability to manage operating costs necessary to develop and provide meaningful training and related services and products to our clients. For a further discussion of risk factors that may influence our results of operations and financial position, refer to Item 1A - Business Risks as contained in this report on Form 10-K.

Our fiscal year ends on August 31, and unless otherwise indicated, fiscal 2013, fiscal 2012, and fiscal 2011 refer to the twelve-month periods ended August 31, 2013, 2012, 2011, and so forth.

RESULTS OF OPERATIONS

The following table sets forth, for the fiscal years indicated, the percentage of total sales represented by the line items through income before income taxes in our consolidated income statements. This table should be read in conjunction with the following discussion and analysis and the consolidated financial statements, including the related notes to the consolidated financial statements:

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YEAR ENDED AUGUST 31,	2013	2012	2011
Sales:			
Training and consulting services	93.6 %	93.1 %	93.9 %
Products	4.2	5.0	4.6
Leasing	2.2	1.9	1.5
Total sales	100.0	100.0	100.0
Cost of sales:			
Training and consulting services	29.8	30.6	32.3
Products	1.6	2.3	2.3
Leasing	1.0	1.0	1.1
Total cost of sales	32.4	33.9	35.7
Gross profit	67.6	66.1	64.3
Selling, general, and administrative	53.0	52.5	53.0
Depreciation	1.6	1.8	2.2
Amortization	1.7	1.5	2.2
Total operating expenses	56.3	55.8	57.4
Income from operations	11.3	10.3	6.9
Interest income	0.3	0.0	0.0
Interest expense	(1.2)	(1.4)	(1.6)
Discount on related party receivable	(0.2)	(0.8)	-
Other income, net	0.0	-	-
Income before income taxes	10.2 %	8.1 %	5.3 %

FISCAL 2013 COMPARED WITH FISCAL 2012

Sales

We offer a variety of training content and training-related offerings that are focused on improving leadership, execution, productivity, trust, loyalty, sales performance, and educational results. These offerings are provided, both domestically and internationally, through our sales force, certified client facilitators, international licensee partners, or through technology-enabled solutions. For the fiscal year ended August 31, 2013, our consolidated sales increased by $20.5 million, or 12 percent, to $190.9 million. The following sales analysis for the fiscal year ended August 31, 2013 is based on activity through our primary sales channels.

U.S./Canada Direct Offices – This channel includes our four regional field offices that serve clients in the United States and Canada and our government services group. During fiscal 2013, sales through our regional offices increased by $12.3 million, or 18 percent compared with the prior year. Increased sales through our regional sales offices were generally broad-based across our content and practice areas and were favorably impacted by increased facilitator and intellectual property license sales when compared with fiscal 2012. During fiscal 2013 we held additional marketing events and increased the number of sales and sales support personnel. We believe that the additional events and sales personnel were key drivers of increased sales at our regional sales offices during the year. Partially offsetting increased regional office sales was a $2.1 million decline in government services sales. Our government services revenues were adversely affected by government sequestration, and the contracting timeframe for a large government contract. Previous annual renewals of this contract have occurred during our third fiscal quarter. During fiscal 2013, the contract renewal process was postponed and occurred during our first quarter of fiscal 2014. Subsequent to August 31, 2013 we won a renewal of the contract for a portion of fiscal 2014 and, later in fiscal 2014, we hope to obtain an extended renewal of this large contract for the remainder of fiscal 2014 and beyond. We will continue our efforts to win additional renewals of this contract in the future, but we cannot guarantee a successful outcome, as many of the aspects of renewal are not within our control, including factors such as the partial government shutdown that occurred during the fall of 2013.

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Although we are encouraged about future growth prospects through the U.S./Canada Direct Office channel, our sales through this channel in the first quarter of fiscal 2014 and in future periods could be significantly impacted by our ability to obtain work orders on governmental contracts due to the persistence of governmental operating issues in the United States, the renewal of the other existing contracts, and general economic conditions.

International Direct Offices – Our three international direct offices are located in Australia, Japan, and the United Kingdom. During fiscal 2013, sales increased at all of our international direct offices, which were led by a $0.5 million improvement at our office in Australia. Sales increased by $0.2 million at our office in Japan and by $0.1 million in the United Kingdom. However, the translation of international sales into U.S. dollars had a $3.4 million adverse impact on reported sales as the U.S. dollar strengthened during fiscal 2013, particularly against the Japanese Yen. In fiscal 2013, sales at our Japan office (denominated in Yen) increased by 17 percent compared with fiscal 2012. We anticipate that foreign exchange rates (primarily the Japanese Yen) will continue to have an adverse effect on our reported sales through December 2014 when compared to the prior year.

During fiscal 2013 we implemented hiring and go-to-market strategies in our international direct offices which are consistent with those implemented in our domestic direct offices, including holding more marketing events and hiring additional sales personnel. We believe that these factors began to have a favorable impact on the sales activity in our international direct offices during fiscal 2013 when compared with the prior year. We expect these initiatives will also increase sales during fiscal 2014 and in future periods.

International Licensees – In countries or foreign locations where we do not have a direct office, our training and content offerings and services are delivered through independent licensees, who, subject to strict standards, may translate and adapt our content to match local preferences and customs. In fiscal 2013, international licensee royalties increased $1.2 million compared with the prior year as many of our licensees reported strengthening sales in their countries during the year. We believe that our increased efforts to support our licensees through additional program training, international branding, and the introduction of new offerings has had a favorable impact on their sales growth in fiscal 2013. We are continuing our efforts to improve licensee performance and expect continued growth from our international licensee partners during future periods.

National Account Practices – Our national account practices offer and sell content solutions that are not typically offered in our U.S/Canada Direct offices. These offerings include, in the Education practice, The Leader In Me program designed for students primarily in K-6 elementary schools; Helping Clients Succeed from our Sales Performance practice; and Winning Customer Loyalty from our Customer Loyalty practice. The increase in revenue from our national account practices was due to increased sales in our Education and Sales Performance Practices. We continue to see increased demand for The Leader in Me program in many school districts in the United States as well as in some international locations, which contributed to a $9.0 million, or 64 percent, increase in Education practice revenues compared with fiscal 2012. At August 31, 2013, over 1,500 elementary level schools were using The Leader in Me program, and we anticipate continued growth in future periods. We completed the acquisition of NinetyFive 5 during the third quarter of fiscal 2013, which was added as a component of the Sales Performance practice. Primarily as a result of this acquisition, our Sales Performance practice sales increased by $1.0 million compared with the prior year. These increases were partially offset by a $0.3 million decrease in Customer Loyalty practice sales.

Self-Funded Marketing – This group includes our book and audio sales, public programs, and speeches through our speakers' bureau. The decrease in self-funded marketing sales was mainly due to book and audio distribution royalties received in the first and third quarters of fiscal 2012 that did not repeat in fiscal 2013. We expect to continue to release new publications in future periods and

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believe that these new publications will continue to show strong performance in the marketplace and create additional royalty revenues.

Other – Our other sales are comprised primarily of leasing sales and shipping and handling revenues. The increase in other sales was primarily due to increased leasing revenues resulting from new lease contracts at our corporate headquarters. However, during August 2013 one of our significant lease contracts expired and we are actively seeking new tenants for this available space. Our lease revenues will be adversely impacted in fiscal 2014 compared to prior periods until this available space is leased.

Gross Profit

Gross profit consists of net sales less the cost of services provided or the cost of goods sold. Our cost of sales includes the direct costs of delivering content onsite at client locations, including presenter costs, materials used in the production of training products and related assessments, assembly and manufacturing labor costs, freight, and certain other overhead costs. Gross profit may be affected by, among other things, the mix of practice solutions sold to clients, prices of materials, labor rates, changes in product discount levels, and freight costs.

Our consolidated gross profit for the fiscal year ended August 31, 2013 increased to $129.0 million compared with $112.7 million in the prior fiscal year. The increase was primarily due to improved sales for the fiscal year ended August 31, 2013 compared with fiscal 2012, and to improved margin on our sales. Our consolidated gross margin increased to 67.6 percent of sales in fiscal 2013 compared with 66.1 percent in the prior year. The improvement in gross margin was primarily due to increased intellectual property license sales, increased facilitator sales, and increased international licensee royalties, all of which have higher gross margins than the majority of our other programs and services.

Operating Expenses

Selling, General and Administrative (SG&A) – Our SG&A expenses increased $11.7 million, or 13 percent, compared with the prior year. As a percent of sales, our SG&A expenses increased to 53.0 percent compared with 52.5 percent in fiscal 2012. The increase in SG&A expenses was primarily due to 1) an $8.6 million increase in associate costs primarily related to additional commissions and bonuses on significantly higher sales in fiscal 2013 and investments in new sales-related personnel; 2) a $1.7 million increase in advertising and promotional costs that were primarily related to strategic initiatives which we believe had a favorable impact on our fiscal year’s sales; 3) a $1.2 million increase in travel expenses related primarily to marketing activities and increased training sales activity during the fiscal year; and 4) a $0.4 million increase in legal expenses that was due to the fiscal 2012 reimbursement of certain legal fees by FC Organization Products (FCOP) and which did not repeat in fiscal 2013. These increases were partially offset by a $0.2 million decrease in non-cash share-based compensation.

The acquisition of NinetyFive 5 in fiscal 2013 requires us to reassess the fair value of the contingent earnout payments each reporting period. Changes to the fair value of the expected amount of contingent consideration to be paid are required to be classified as an operating expense in future periods. The changes in fair value may significantly increase or decrease our total operating income in future periods.

Depreciation – Depreciation expense for fiscal 2013 decreased by $0.1 million compared with fiscal 2012 primarily due to certain assets becoming fully depreciated. Based on capital asset acquisitions in fiscal 2013 and expected purchases during fiscal 2014, we anticipate depreciation expense will total approximately $3.3 million in fiscal 2014.

Amortization – Amortization expense from definite-lived intangible assets increased $0.7 million compared with the prior year due to the acquisition of NinetyFive 5 during fiscal 2013. Based on current carrying amounts of intangible assets and remaining estimated useful lives, we anticipate amortization expense will total $3.9 million in fiscal 2014.

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Interest Income

The increase in interest income was attributable to the accretion of interest on previously discounted long-term receivables from FCOP. Interest income is computed using the effective interest method using a rate of 15 percent, which was the discount rate at which these receivables were marked to estimated net present value (refer to discussion below).

Discount on Related Party Receivable

We record receivables from FCOP for reimbursement of certain operating costs, such as warehousing and distribution costs, which are billed to us by third party providers, and for working capital and other advances that we make, even though we are not contractually required to make advances or absorb the losses of FCOP. Based on expected payment, some of these receivables are recorded as long-term receivables and are required to be recorded at net present value. We discounted the long-term portion of the FCOP receivable based on forecasted repayments at a discount rate of 15 percent, which was the estimated risk-adjusted borrowing rate of FCOP.

Income Taxes

Our effective tax rate for the fiscal year ended August 31, 2013 was approximately 26 percent compared with 43 percent in fiscal 2012. Our effective tax rate decreased primarily due to the benefit of foreign tax credits we plan to claim for fiscal 2003 through fiscal 2007. During those years we either generated or used net operating loss carryforwards and were unable to utilize foreign tax credits and instead took foreign tax deductions. As of August 31, 2013 we have no remaining U.S. federal net operating loss carryforwards. Additionally, overall taxable income and foreign source income in fiscal 2013 were sufficient to utilize all of the foreign tax credits generated during the fiscal year, plus additional credits generated in prior years. Based on these factors and our projected taxable income and foreign source income, we decided to amend our U.S. federal income tax returns from fiscal 2003 through fiscal 2007 to claim foreign tax credits instead of foreign tax deductions. The net tax benefit from claiming these additional foreign tax credits totaled $2.4 million in fiscal 2013.

Consistent with fiscal 2013, we expect our effective tax rate for fiscal 2014 to be lower than statutory combined rates as we claim the benefit of foreign tax credits. However, we will not have the information necessary to determine the fiscal 2014 benefit until the fourth quarter. Accordingly, we anticipate that our effective income tax rate during the first three quarters of fiscal 2014 will be approximately 40 percent.

We anticipate that our cash paid for income taxes will remain less than our income tax provision during the foreseeable future as we utilize foreign tax credit carryforwards and other deferred income tax assets. For instance, during fiscal 2013 we paid $4.0 million of cash for income taxes compared with an income tax provision of $5.1 million. After utilization of our foreign tax credit carryforwards, which we currently expect to be fully utilized by the end of fiscal 2016, we anticipate that our cash paid for income taxes will increase and approximate our income tax provision.

FISCAL 2012 COMPARED WITH FISCAL 2011

Sales

For the fiscal year ended August 31, 2012, our consolidated sales increased by $9.7 million, or six percent, to $170.5 million. The following sales analysis for the fiscal year ended August 31, 2012 is based on activity through our primary sales channels as previously defined.

U.S./Canada Direct Offices – During fiscal 2012, sales through our four direct offices increased by $4.7 million, or eight percent, compared with the prior year. Partially offsetting increased direct office

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sales were expected reductions from contracts with a governmental agency that included more revenue in the initial phases (which occurred primarily in fiscal 2011) of the contracts than in subsequent periods. As a result, sales through our government services group decreased $3.4 million compared with fiscal 2011. However, during the third quarter of fiscal 2012 we won a renewal of these contracts with the governmental agency and we delivered training and consulting services throughout the life of these contracts, which included the first three quarters of fiscal 2013.

International Direct Offices – The improvement in international direct office sales compared with fiscal 2011 was primarily due to a $2.2 million increase in sales at our Japan office. The sales growth in Japan was primarily due to the recovery of the Japanese economy from the effects of the earthquake and tsunami that struck northern Japan during March 2011. Sales were also up $0.2 million at our office in the United Kingdom during fiscal 2012. However, these increases were partially offset by a $1.1 million decrease at our office in Australia, which were primarily attributable to sales force performance issues that the Company believes have been properly addressed. During fiscal 2012, the translation of sales from foreign currencies to United States dollars had a $0.7 million favorable impact on our international office sales.

International Licensees – Our licensee sales increased $1.7 million compared with fiscal 2011 as many of our licensees reported strengthening sales in their countries during the year, which resulted in increased royalties.

National Account Practices – During fiscal 2012, our national account practice sales increased due to a $4.2 million increase in Education practice sales resulting from a general increase in demand for these school-based services as The Leader In Me program continues to generate favorable results at schools in the United States and in other countries. Our Sales Performance practice also increased its sales by $0.9 million over the prior year as this group obtained new contracts during the fiscal year. These increases were partially offset by a $0.5 million decrease in Customer Loyalty practice sales primarily resulting from the completion of a large contract during fiscal 2012.

Self-Funded Marketing – The decrease in sales was due to reduced public speaking revenues resulting primarily from the retirement of Dr. Stephen R. Covey from public speaking events in late fiscal 2011. Decreased speakers' bureau sales were partially offset by a $0.5 million increase in book and audio product sales resulting primarily from the release of new publications during the year.

Other – The increase in other sales was primarily due to improved leasing revenues resulting from new lease contracts at our corporate headquarters.

Gross Profit

Our consolidated gross profit for the fiscal year ended August 31, 2012 increased to $112.7 million compared with $103.5 million in fiscal 2011. The increase was primarily due to increased sales in fiscal 2012 over fiscal 2011 and improved margin on our sales. Our consolidated gross margin increased to 66.1 percent of sales in fiscal 2012 compared with 64.3 percent in the prior year. The improvement in gross margin was primarily due to increased international licensee royalty revenues, increased facilitator sales, and increased intellectual property license sales, all of which have higher gross margins than the majority of our other programs and services.

Operating Expenses

Selling, General and Administrative – Our SG&A expenses in fiscal 2012 increased $4.2 million compared with fiscal 2011. However, as a percent of sales, SG&A expenses declined to 52.5 percent of sales compared to 53.0 percent in the prior year. The increase in SG&A expenses was primarily due to 1) a $3.2 million increase in associate costs resulting from increased sales commissions and bonuses resulting from improved sales and operating results, and the addition of new personnel; 2) a $2.4 million

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increase in advertising and promotional costs that were primarily related to the launch of our new productivity offering, The 5 Choices to Extraordinary Productivity, and the launch of new strategic marketing initiatives that we believe had a favorable impact on overall fiscal 2012 sales; and 3) a $1.0 million increase in non-cash share-based compensation costs, primarily resulting from performance awards granted in the fourth quarter of fiscal 2011. These increases were partially offset by 1) a $1.0 million decrease in rent and utilities expenses primarily the result of reduced rent expense at our Japan office and reduced telephone and communication expenses; 2) a $0.7 million decrease in legal expenses resulting primarily from the settlement of certain litigation and the reimbursement of previously expensed legal costs; 3) $0.4 million of decreased professional services costs compared to the prior year; and 4) a $0.2 million reduction in outsourced services charges resulting primarily from a reduction in outsourced information technology support costs.

Depreciation – Depreciation expense decreased by $0.4 million compared to fiscal 2011 primarily due to the full depreciation of certain capital assets during the latter half of fiscal 2012.

Amortization – Amortization expense from definite-lived intangible assets decreased $1.0 million due to the full amortization of certain intangible assets in late fiscal 2011.

Discount on Related Party Receivable

Due to the settlement of litigation during fiscal 2012, with a required settlement payment by FC Organizational Products, the amount of cash we received from FCOP was reduced from previous forecasts and our receivable balance from FCOP increased during fiscal 2012. In the fourth quarter of fiscal 2012, we received revised information from FCOP regarding scheduled payments to us and we reclassified a portion of the FCOP receivable to long-term assets and recorded a discount charge of $1.4 million to reduce the long-term receivable to its estimated present value at August 31, 2012. We discounted the long-term portion of the receivable based on forecasted repayments at a discount rate of 15 percent, which was the estimated risk-adjusted borrowing rate of FCOP at August 31, 2012. This rate was based on a variety factors including, but not limited to, current market interest rates for various qualities of comparable debt, discussions with FCOP’s lenders, and an evaluation of the realizability FCOP’s future cash flows.

Income Taxes

Our effective tax rate for fiscal 2012 was 43 percent and remained consistent with fiscal 2011. Our effective income tax rate was higher than statutory combined rates primarily due to taxable interest income on outstanding management common stock loans and uncertain tax positions. These increases in our effective rate were partially offset by the benefit of foreign tax credits in excess of the tax on income taxed by both U.S. and foreign jurisdictions. The effective tax rate for fiscal 2012 and fiscal 2011 includes the benefit of foreign tax credits claimed on our U.S. federal income tax returns for those fiscal years.

ENTERPRISE INFORMATION

Our sales are primarily comprised of training and content sales and related products such as books, audio, and training accessories. Based on the consistent nature of our services and products and the types of customers for these services, we function as a single operating segment. However, to improve comparability with previous periods, operating information for our U.S./Canada, international, and corporate services operations is presented below. Our U.S./Canada operations are responsible for the sale and delivery of our training and content offerings in the United States and Canada. Our international sales group includes the financial results of our wholly owned foreign direct offices and royalty revenues from licensees. Our corporate services information includes leasing income and certain corporate operating expenses.

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The following table sets forth sales data for these operations for the periods indicated. For further enterprise information, including geographic information, refer to Note 17 to our consolidated financial statements as found in Item 8 of this report on Form 10-K (in thousands).

YEAR ENDED AUGUST 31,	2013	Percent change	2012	Percent change	2011
U.S./Canada	$ 142,616	14	$ 125,183	6	$ 118,420
International	44,154	5	42,052	5	40,011
Total	186,770	12	167,235	6	158,431
Corporate and eliminations	4,154	29	3,221	36	2,373
Consolidated	$ 190,924	12	$ 170,456	6	$ 160,804

QUARTERLY RESULTS

The following tables set forth selected unaudited quarterly consolidated financial data for the fiscal years ended August 31, 2013 and 2012. The quarterly consolidated financial data reflects, in the opinion of management, all adjustments necessary to fairly present the results of operations for such periods. We utilize a modified 52/53-week fiscal year that ends on August 31 of each year. Corresponding quarterly periods generally consist of 13-week periods during the fiscal year. Results of any one or more quarters are not necessarily indicative of continuing trends (in thousands, except for per-share amounts).

YEAR ENDED
AUGUST 31, 2013
(unaudited)

	December 1	March 2	June 1	August 31
Net sales	$ 44,061	$ 40,430	$ 44,859	$ 61,574
Gross profit	29,559	27,284	29,435	42,712
Selling, general, and administrative	22,943	22,691	23,661	31,880
Depreciation	702	722	752	833
Amortization	622	619	960	990
Income from operations	5,292	3,252	4,062	9,009
Discount on related party receivable	(147)	(135)	(135)	(102)
Income before income taxes	4,693	2,669	3,527	8,509
Net income	2,897	1,592	2,111	7,719
Net income per share:				
Basic	$ .16	$ .09	$ .13	$ .47
Diluted	.15	.08	.13	.47
YEAR ENDED AUGUST 31, 2012				

(unaudited)				
	November 26	February 25	May 26	August 31
Net sales	$ 39,540	$ 38,627	$ 41,274	$ 51,015
Gross profit	26,542	24,981	26,144	35,016
Selling, general, and administrative	21,373	20,714	21,448	25,927
Depreciation	834	860	680	768
Amortization	631	626	622	620
Income from operations	3,704	2,781	3,394	7,701
Discount on related party receivable	-	-	-	(1,369)
Income before income taxes	3,074	2,159	2,783	5,732
Net income	1,662	1,162	1,617	3,399
Net income per share:				
Basic	$ .09	$ .07	$ .09	$ .19
Diluted	.09	.06	.09	.18

Training content sales are moderately seasonal because of the timing of corporate training, which is not typically scheduled as heavily during holiday and certain vacation periods. Our fourth fiscal quarter generally has higher sales and income from operations than other fiscal quarters primarily due to increased revenues in our Education practice (when school administrators and faculty are not conducting classes) and to increased facilitator sales that typically occur during that quarter. Quarterly fluctuations

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may also be affected by other factors including the introduction of new offerings, the addition of new organizational customers, and the elimination of underperforming offerings.

LIQUIDITY AND CAPITAL RESOURCES

Summary

During fiscal 2013 our liquidity position strengthened as we improved our income from operations and repaid all remaining bank debt. At August 31, 2013 we had $12.3 million of cash and cash equivalents compared with $11.0 million at August 31, 2012 and our net working capital (current assets less current liabilities) increased to $38.2 million compared with $27.5 million at August 31, 2012. Of our $12.3 million in cash and cash equivalents at August 31, 2013, $3.9 million was held at our foreign subsidiaries. We routinely repatriate earnings from our foreign subsidiaries for which U.S. taxes have previously been provided and consider foreign cash a key component of our overall liquidity position. Our primary sources of liquidity are cash flows from the sale of content and services in the normal course of business, and proceeds from our available $10.0 million revolving line of credit. Our primary uses of liquidity include payments for operating activities, capital expenditures, working capital expansion, business acquisitions, and debt repayment.

On March 25, 2013 we entered into the Third Modification Agreement (the Third Modification Agreement) to our previously existing amended and restated secured credit agreement (the Restated Credit Agreement) with our existing lender. The primary purposes of the Third Modification Agreement are to extend the maturity date of the Restated Credit Agreement from March 31, 2015 to March 31, 2016 and to increase the caps for permitted business acquisitions. The Third Modification Agreement continues to provide a revolving line of credit facility with a maximum borrowing amount of $10.0 million with interest at LIBOR plus 2.50 percent.

The Restated Credit Agreement also provided a term loan (the Term Loan) that allowed us to borrow $5.0 million for general business purposes. The final payment on the Term Loan was due on September 1, 2013; however, we repaid the remaining balance prior to August 31, 2013. We had no outstanding obligations on our Restated Credit Agreement at August 31, 2013.

We may use our line of credit facility for general corporate purposes as well as for other transactions, unless prohibited by the terms of the line of credit agreement. The Restated Credit Agreement and subsequent modifications also contain customary representations and guarantees as well as provisions for repayment and liens. In addition to customary non-financial terms and conditions, our line of credit requires us to be in compliance with specified financial covenants, including (i) a funded debt to EBITDAR ratio requirement of less than 3.00 to 1.00; (ii) a fixed charge coverage ratio requirement in excess of 1.5 to 1.0; and (iii) an $8.0 million limitation on capital expenditures, excluding capitalized curriculum development. At August 31, 2013, we believe that we were in compliance with the terms and financial covenants applicable to the Restated Credit Agreement and its subsequent modifications.

In addition to potential obligations from our Restated Credit Facility, we have a long-term lease on our corporate campus that expires in 2025 and is accounted for as a long-term financing obligation.

The following table summarizes our cash flows from operating, investing, and financing activities for the past three years (in thousands):

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YEAR ENDED AUGUST 31,	2013	2012	2011
Total cash provided by (used for):			
Operating activities	$ 15,528	$ 15,562	$ 15,643
Investing activities	(9,583)	(4,392)	(10,834)
Financing activities	(3,834)	(3,192)	(5,095)
Effect of exchange rates on cash	(831)	17	(182)
Increase (decrease) in cash and cash equivalents	$ 1,280	$ 7,995	$ (468)

Cash Flows from Operating Activities

Our cash provided by operating activities declined slightly compared with the prior year and totaled $15.5 million for the fiscal year ended August 31, 2013 compared with $15.6 million in fiscal 2012. The slight decrease was primarily due to cash used to support investments in working capital, including a significant increase in accounts receivable resulting from increased sales during the fourth quarter of fiscal 2013. The use of cash for working capital investment was partially offset by improved operating results during fiscal 2013 compared with the prior year. Our primary source of cash from operating activities in fiscal 2013 was the sale of content and services to our customers in the normal course of business. The primary uses of cash for operating activities were payments to suppliers for materials used in products sold, payments for direct costs necessary to conduct programs, and payments for selling, general, and administrative expenses.

Cash Flows from Investing Activities and Capital Expenditures

Our business is not generally considered to be capital intensive and we do not own or operate any manufacturing facilities. Our uses of cash for investing purposes during fiscal 2013 were primarily comprised of business acquisitions, curriculum development, and purchases of computer hardware, software, and other capital items used in the normal course of business. During fiscal 2013 we used $9.6 million of cash for investing activities compared with $4.4 million used in the prior year.

For the year ended August 31, 2013 we used $4.2 million of cash in connection with business acquisitions. We paid $2.2 million for the fourth of five potential earnout payments from the acquisition of CoveyLink Worldwide, LLC (CoveyLink) and $2.0 million for the acquisition of NinetyFive 5, LLC (NinetyFive 5). During fiscal 2013 we completed the acquisition of NinetyFive 5, an entity that provides sales performance training services. The consideration for this acquisition consists of an initial $4.2 million in cash payable in four installments through December 2013, and additional potential earnout payments up to a maximum of $8.5 million based on cumulative EBITDA as set forth in the purchase agreement. The remaining $2.3 million liability from the purchase of NinetyFive 5 is classified as a component of accrued liabilities at August 31, 2013. In addition, we have recorded the fair value of the liability for potential contingent earnout payments of $4.1 million in other long-term liabilities at August 31, 2013. However, the actual payments will be determined in future periods based on actual EBITDA results. See further discussion under “Contractual Obligations.”

During fiscal 2013 we used $3.2 million of cash for the development of various curriculums and offerings. We also used $2.2 million of cash for purchases of property and equipment. Our purchases of property and equipment during fiscal 2013 consisted primarily of computer hardware, computer software, and leasehold improvements on office space at our corporate campus that we lease to other entities.

During fiscal 2014, we expect to spend approximately $2.3 million on purchases of property and equipment and $7.0 million on curriculum development activities. The significant increase in spending for curriculum development is primarily due to significant revisions to The 7 Habits of Highly Effective People Signature Program, which is our largest solution and is sold throughout the world. The revised program is scheduled to be released in March 2014. However, actual capital spending and expected launch dates are based upon a variety of factors and may differ from these estimates.

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Cash Flows from Financing Activities

Net cash used for financing activities during fiscal 2013 totaled $3.8 million compared with $3.2 million in the prior year. Our uses of cash for financing activities primarily consisted of $3.7 million used for principal payments on our term loan and long-term financing obligation, and $1.3 million used to repurchase shares of common stock, including shares withheld for statutory taxes on share-based compensation awards. Partially offsetting these uses of cash were $0.9 million of income tax benefits from share-based compensation awards and $0.5 million of cash received from participants in our employee stock purchase plan.

During fiscal 2012 we announced the approval of a plan to repurchase up to $10.0 million of our common stock. We intend to use cash in excess of $10.0 million, provided we have no balance outstanding on our revolving line of credit, for the purchases. Through August 31, 2013 we have purchased a total of 73,320 shares of our common stock for $0.8 million under this plan. We anticipate that the purchases of our common stock under this approved plan will increase the use of cash for financing activities in future periods.

Sources of Liquidity

We expect to meet our projected capital expenditures, service our existing financing obligation, and meet other working capital requirements during fiscal 2014 through current cash balances and future cash flows from operating activities. Going forward, we will continue to incur costs necessary for the day-to-day operation and potential growth of the business and may use our available revolving line of credit and other financing alternatives, if necessary, for these expenditures. We extended the maturity date on our Restated Credit Agreement during fiscal 2013 to March 2016 and expect to renew the Restated Credit Agreement on an annual basis to maintain the three-year availability of this credit facility. Additional potential sources of liquidity available to us include factoring receivables, issuance of additional equity, or issuance of debt from public or private sources. If necessary, we will evaluate all of these options and select one or more of them depending on overall capital needs and the associated cost of capital.

We believe that our existing cash and cash equivalents, cash generated by operating activities, and availability of external funds as described above, will be sufficient for us to maintain our operations in the foreseeable future. However, our ability to maintain adequate capital for our operations in the future is dependent upon a number of factors, including sales trends, macroeconomic activity, our ability to contain costs, levels of capital expenditures, collection of accounts receivable, and other factors. Some of the factors that influence our operations are not within our control, such as general economic conditions and the introduction of new curriculums and technology by our competitors. We will continue to monitor our liquidity position and may pursue additional financing alternatives, as described above, to maintain sufficient resources for future growth and capital requirements. However, there can be no assurance such financing alternatives will be available to us on acceptable terms, or at all.

Contractual Obligations

We have 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 primarily consist of lease payments resulting from the sale of our corporate campus (financing obligation); minimum operating lease payments primarily for domestic regional and foreign office space; payments to HP Enterprise Services (HP) for outsourcing services related to information systems, warehousing, and distribution services; short-term purchase obligations for inventory items and other products and services used in the ordinary course of business; and remaining payments associated with the acquisition of NinetyFive 5. Our expected payments on these obligations over the next five fiscal years and thereafter are as follows (in thousands):

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Contractual Obligations	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018	Thereafter	Total
Required lease payments on corporate campus	$ 3,307	$ 3,373	$ 3,440	$ 3,509	$ 3,579	$ 26,330	$ 43,538
Minimum operating lease payments(1)	1,906	1,706	1,385	397	159	529	6,082
Minimum required payments to HP for outsourcing services(2)	2,207	2,222	1,383	-	-	-	5,812
Purchase obligations	4,273	-	-	-	-	-	4,273
NinetyFive 5 acquisition liability	2,250	-	-	-	-	-	2,250
NinetyFive 5 contingent earnout payments(3)	-	2,167	2,167	2,166	2,000	-	8,500
Total expected contractual obligation payments	$ 13,943	$ 9,468	$ 8,375	$ 6,072	$ 5,738	$ 26,859	$ 70,455

(1) The operating agreement with FC Organizational Products provides for reimbursement of a portion of the warehouse leasing costs, the impact of which would reduce the lease obligations disclosed in the table above.

(2) Our obligation for outsourcing services contains an annual escalation based upon changes in the Employment Cost Index, the impact of which was not estimated in the above table.

(3) This obligation represents the maximum potential contingent earnout payments based on expected financial performance and the terms of the NinetyFive 5 acquisition agreement. Actual amounts paid may differ from those presented in the table if performance objectives are not achieved.

Our contractual obligations presented above exclude unrecognized tax benefits of $4.1 million for which we cannot make a reasonably reliable estimate of the amount and period of payment. For further information regarding our unrecognized tax benefits, refer to the notes to our consolidated financial statements as presented in Part II, Item 8 of this report on Form 10-K.

USE OF ESTIMATES AND CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America. The significant accounting policies that we used to prepare our consolidated financial statements are primarily outlined in note 1 to the consolidated financial statements, which are presented in Part II, Item 8 of this Annual Report on Form 10-K. Some of those accounting policies require us to make assumptions and use judgments that may affect the amounts reported in our consolidated financial statements. Management regularly evaluates its estimates and assumptions and bases those estimates and assumptions on historical experience, factors that are believed to be reasonable under the circumstances, and requirements under accounting principles generally accepted in the United States of America. Actual results may differ from these estimates under different assumptions or conditions, including changes in economic and political conditions and other circumstances that are not in our control, but which may have an impact on these estimates and our actual financial results.

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

Revenue Recognition

We derive revenues primarily from the following sources:

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- Training and Consulting Services – We provide training and consulting services to both organizations and individuals in leadership, productivity, strategic execution, trust, sales force performance, customer loyalty, and communication effectiveness skills.

- Products – We sell books, audio media, and other related products.

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

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

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

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

Share-Based Compensation

Our shareholders have approved performance based long-term incentive plans (LTIPs) that provide for grants of share-based performance awards to certain managerial personnel and executive management as directed by the Organization and Compensation Committee of the Board of Directors. The number of common shares that are vested and issued to LTIP participants in some plans may be variable and all performance-based awards have vesting requirements dependent upon the achievement of specified objectives during a defined period. Due to uncertainties related to the achievement of objectives and the variable number of common shares that may be issued under some LTIPs, we reevaluate our LTIP grants on a quarterly basis and adjust our share-based compensation expense for expected vesting dates and the expected number of shares to be awarded based upon actual and estimated financial results of the Company compared to the performance goals set for the award. Adjustments to our share-based compensation expense are made on a cumulative basis at the adjustment date based upon revisions to the estimated vesting date and/or the number of common shares to be awarded.

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

We have also granted share-based compensation awards that have share price, or market-based, vesting conditions. For these market-based awards we used a Monte Carlo simulation to determine the fair value and expected term (derived service period) of these awards. The Monte Carlo pricing models require

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various inputs, including items such as grant-date share price, common stock price volatility, dividend rates, and risk-free return rates. If underlying model input factors change significantly, including changes in the price of our common stock on the grant date, our share-based compensation expense may differ materially from amounts recorded in current or previous periods.

Accounts Receivable Valuation

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Our allowance for doubtful accounts calculations contain uncertainties because the calculations require us to make assumptions and judgments regarding the collectability of customer accounts, which may be influenced by a number of factors that are not within our control, such as the financial health of each customer. We regularly review the collectability assumptions of our allowance for doubtful accounts calculation and compare them against historical collections. Adjustments to the assumptions may either increase or decrease our total allowance for doubtful accounts. For example, a 10 percent increase to our allowance for doubtful accounts at August 31, 2013 would decrease our reported income from operations by approximately $0.1 million.

For further information regarding the calculation of our allowance for doubtful accounts, refer to the notes to our financial statements as presented in Item 8 of this report on Form 10-K.

Related Party Receivable

At August 31, 2013, we had receivables from FC Organizational Products, an entity in which we own 19.5 percent, for reimbursement of certain operating costs, such as warehousing and distribution costs, which are billed to us by third party providers, and for working capital and other advances, even though we are not obligated to provide advances to, or fund the losses of FCOP. We make use of estimates to account for these receivables, including estimates of the collectability of amounts receivable from FCOP in future periods and, based upon revisions to the timing of estimated collections in fiscal 2012, we were required to reclassify a portion of the receivable from current to long-term. In accordance with applicable accounting guidance, we were required to discount the long-term portion of the receivables to its net present value using an estimated effective borrowing rate for FCOP.

We estimated the effective risk-adjusted borrowing rate to discount the long-term portion of the receivable at 15 percent, which was recorded as a discount on a related party receivable in our fiscal 2013 and fiscal 2012 income statements. Our estimate of the effective borrowing rate required us to estimate a variety of factors, including the availability of debt financing for FCOP, projected borrowing rates for comparable debt, and the timing and realizability of projected cash flows from FCOP. These estimates were based on information known at the time of the preparation of these financial statements. A change in the assumptions and factors used, including estimated interest rates, may change the amount of discount taken. For instance, a one percent increase in the discount rate would have reduced our income before income taxes by $0.1 million during fiscal 2013.

Our assessments regarding the collectability of the FCOP receivable requires us to make assumptions and judgments regarding the financial health of FCOP and are dependent on projected financial information for FCOP in future periods. Such financial information contains inherent uncertainties, and is subject to factors that are not within our control. Failure to receive projected cash flows from FCOP in future periods may result in adverse consequences to our liquidity, financial position, and results of operations.

For further information regarding our investment in FCOP, refer to the notes to our financial statements as presented in Item 8 of this report on Form 10-K.

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Inventory Valuation

Our inventories are primarily comprised of training materials and related accessories. Inventories are reduced to their fair market value through the use of inventory valuation reserves, which are recorded during the normal course of business. Our inventory valuation calculations contain uncertainties because the calculations require us to make assumptions and judgments regarding a number of factors, including future inventory demand requirements and pricing strategies. During the evaluation process we consider historical sales patterns and current sales trends, but these may not be indicative of future inventory losses. While we have not made material changes to our inventory valuation methodology during the past three years, our inventory requirements may change based on projected customer demand, technological and product life cycle changes, longer or shorter than expected usage periods, and other factors that could affect the valuation of our inventories. If our estimates regarding consumer demand and other factors are inaccurate, we may be exposed to losses that may have an adverse impact upon our financial position and results of operations. For example, a 10 percent increase to our inventory valuation reserves at August 31, 2013 would decrease our reported income from operations by $0.1 million.

Indefinite-Lived Intangible Assets and Goodwill

Intangible assets that are deemed to have an indefinite life and goodwill balances are not amortized, but rather are tested for impairment on an annual basis, or more often if events or circumstances indicate that a potential impairment exists. The Covey trade name intangible asset was generated by the merger with the Covey Leadership Center and has been deemed to have an indefinite life. This intangible asset is quantitatively tested for impairment using the present value of estimated royalties on trade name related revenues, which consist primarily of training seminars and international licensee royalties. Our goodwill at August 31, 2013 was generated by the acquisition of CoveyLink Worldwide, LLC during fiscal 2009 and the subsequent payment of contingent annual earnout payments, and the acquisition of NinetyFive 5 in fiscal 2013.

Our impairment evaluation calculations for goodwill and the Covey trade name contain uncertainties because they require us to make assumptions and apply judgment in order to qualitatively assess the fair value of these assets, and may require estimated future cash flows, an estimated appropriate royalty rate, and an estimated discount rate that reflects the inherent risk of future cash flows when these assets are evaluated on a quantitative basis. If forecasts and assumptions used to support the carrying value of our indefinite-lived intangible asset change in future periods, significant impairment charges could result that would have an adverse effect upon our results of operations and financial condition. The valuation methodologies for both indefinite-lived intangible assets and goodwill are also dependent upon the share price of our common stock and our corresponding market capitalization, which may differ from estimated royalties used in our impairment testing. Based upon the fiscal 2013 evaluation of the Covey trade name and goodwill, our trade-name related revenues, licensee royalties, consolidated sales, and market capitalization would have to suffer significant reductions before we would be required to impair these long-lived assets.

The acquisition of NinetyFive 5 in fiscal 2013 requires us to reassess the fair value of the contingent earnout payments each reporting period. Although subsequent changes to the contingent consideration liability do not affect the goodwill generated from the acquisition transaction, the valuation of expected contingent consideration requires us to estimate future sales and profitability. These estimates require the use of numerous assumptions, many of which may change frequently and lead to increased or decreased operating income in future periods.

Impairment of Long-Lived Assets

Long-lived tangible assets and definite-lived intangible assets are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We use an estimate of undiscounted future net cash flows of the assets over their remaining useful lives in determining whether the carrying value of the assets is recoverable. If the carrying values

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of the assets exceed the anticipated future cash flows of the assets, we calculate an impairment loss. The impairment loss calculation compares the carrying value of the asset to the asset's estimated fair value, which may be based upon discounted cash flows over the estimated remaining useful life of the asset. If we recognize an impairment loss, the adjusted carrying amount of the asset becomes its new cost basis, which is then depreciated or amortized over the remaining useful life of the asset. Impairment of long-lived assets is assessed at the lowest levels for which there are identifiable cash flows that are independent from other groups of assets.

Our impairment evaluation calculations contain uncertainties because they require us to make assumptions and apply judgment in order to estimate future cash flows, forecast the useful lives of the assets, and select a discount rate that reflects the risk inherent in future cash flows. If forecasts and assumptions used to support the carrying value of our long-lived tangible and definite-lived intangible assets change in the future, significant impairment charges could result that would adversely affect our results of operations and financial condition.

Income Taxes

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

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

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

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

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REGULATORY COMPLIANCE

The Company is registered in states in which we do business that have a sales tax and collects and remits sales or use tax on sales made in these jurisdictions. Compliance with environmental laws and regulations has not had a material effect on our 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 the production of training products and related accessories, including paper and related raw materials. We 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

Certain written and oral statements made by us in this report are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934 as amended (the Exchange Act). Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain words such as “believe,” “anticipate,” “expect,” “estimate,” “project,” or words or phrases of similar meaning. In our reports and filings we may make forward looking statements regarding our expectations about future sales growth, expected introduction of new or refreshed curriculums, future training and consulting sales activity, renewal of existing contracts, the release and success of new publications, anticipated expenses, the adequacy of existing capital resources, projected cost reduction and strategic initiatives, expected levels of depreciation and amortization expense, expectations regarding tangible and intangible asset valuation expenses, the seasonality of future sales, expectations about attracting new tenants to occupy vacant space at our corporate campus, the seasonal fluctuations in cash used for and provided by operating activities, future compliance with the terms and conditions of our Revolving Loan and Term Loan, the ability to borrow on, and renew, our Revolving Loan, expected repayment of our Term Loan in future periods, expectations regarding income tax expenses as well as tax assets and credits and the amount of cash expected to be paid for income taxes, estimated capital expenditures, and cash flow estimates used to determine the fair value of long-lived assets. These, and other forward-looking statements, are subject to certain risks and uncertainties that may cause actual results to differ materially from the forward-looking statements. These risks and uncertainties are disclosed from time to time in reports filed by us with the SEC, including reports on Forms 8-K, 10-Q, and 10-K. Such risks and uncertainties include, but are not limited to, the matters discussed in Item 1A of this annual report on Form 10-K for the fiscal year ended August 31, 2013, entitled “Risk Factors.” In addition, such risks and uncertainties may include unanticipated developments in any one or more of the following areas: unanticipated costs or capital expenditures; difficulties encountered by HP Enterprise Services in operating and maintaining our information systems and controls, including without limitation, the systems related to demand and supply planning, inventory control, and order fulfillment; delays or unanticipated outcomes relating to our strategic plans; dependence on existing products or services; the rate and consumer acceptance of new product introductions; competition; the number and nature of customers and their product orders, including changes in the timing or mix of product or training orders; pricing of our products and services and those of competitors; adverse publicity; adverse effects on certain licensee’s performance due to civil unrest in some of the countries where our licensees operate; and other factors which may adversely affect our business.

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

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The market price of our common stock has been and may remain volatile. In addition, the stock markets in general have experienced increased volatility. Factors such as quarter-to-quarter variations in revenues and earnings or losses and our failure to meet expectations could have a significant impact on the market price of our common stock. In addition, the price of our common stock can change for reasons unrelated to our performance. Due to our low market capitalization, the price of our common stock may also be affected by conditions such as a lack of analyst coverage and fewer potential investors.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk of Financial Instruments

We are exposed to financial instrument market risk primarily through fluctuations in foreign currency exchange rates and interest rates. To manage risks associated with foreign currency exchange and interest rates, we may make limited use of derivative financial instruments. Derivatives are financial instruments that derive their value from one or more underlying financial instruments. As a matter of policy, our derivative instruments are entered into for periods consistent with the related underlying exposures and do not constitute positions that are independent of those exposures. In addition, we do not enter into derivative contracts for trading or speculative purposes, nor are we party to any leveraged derivative instrument. The notional amounts of derivatives do not represent actual amounts exchanged by the parties to the instrument; and thus are not a measure of exposure to us through our use of derivatives. Additionally, we enter into derivative agreements only with highly rated counterparties and we do not expect to incur any losses resulting from non-performance by other parties.

Foreign Exchange Sensitivity

Due to the global nature of our operations, we are subject to risks associated with transactions that are denominated in currencies other than the United States dollar, as well as the effects of translating amounts denominated in foreign currencies to United States dollars as a normal part of the reporting process. The objective of our foreign currency risk management activities is to reduce foreign currency risk in the consolidated financial statements. In order to manage foreign currency risks, we may make limited use of foreign currency forward contracts and other foreign currency related derivative instruments. However, we did not utilize any foreign currency forward or related derivative contracts during fiscal 2013, fiscal 2012, or fiscal 2011.

Interest Rate Sensitivity

At August 31, 2013, we did not have any amounts drawn on our revolving line of credit facility and we repaid our Term Loan payable to the bank in August 2013. Accordingly, our long-term obligations consisted primarily of a long-term lease agreement (financing obligation) associated with the sale of our corporate headquarters facility, deferred income taxes, and the fair value of expected earnout payments from the acquisition of NinetyFive 5. Our overall interest rate sensitivity is therefore primarily influenced by any amounts borrowed on our revolving line of credit facility and the prevailing interest rate on this instrument, which may create additional expense if interest rates increase in future periods. The effective interest rate on the line of credit facility was 2.8 percent at August 31, 2013 and we do not currently anticipate significant borrowings on the line of credit in the foreseeable future. Our financing obligation has a payment structure equivalent to a long-term leasing arrangement with a fixed interest rate of 7.7 percent.

During the fiscal years ended August 31, 2013, 2012, and 2011, we were not party to any interest rate swap agreements or similar derivative instruments.

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ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of
Franklin Covey Co.

We have audited Franklin Covey Co.'s internal control over financial reporting as of August 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Franklin Covey Co.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Franklin Covey Co. maintained, in all material respects, effective internal control over financial reporting as of August 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Franklin Covey Co. as of August 31, 2013 and 2012, and the related consolidated statements of income and comprehensive income, cash flows, and shareholders' equity for each of the three years in the period ended August 31, 2013 and our report dated November 14, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Salt Lake City, Utah
November 14, 2013

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of
Franklin Covey Co.

We have audited the accompanying consolidated balance sheets of Franklin Covey Co. as of August 31, 2013 and 2012, and the related consolidated statements of income and comprehensive income, cash flows, and shareholders' equity for each of the three years in the period ended August 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Franklin Covey Co. at August 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended August 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Franklin Covey Co.'s internal control over financial reporting as of August 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated November 14, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Salt Lake City, Utah
November 14, 2013

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FRANKLIN COVEY CO.
CONSOLIDATED BALANCE SHEETS

AUGUST 31, In thousands, except per-share data	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 12,291	$ 11,011
Accounts receivable, less allowance for doubtful accounts of $982 and $851	52,684	38,087
Receivable from related party	3,305	3,588
Inventories	4,321	4,161
Deferred income tax assets	4,685	3,634
Prepaid expenses and other current assets	3,822	3,714
Total current assets	81,108	64,195
Property and equipment, net	17,180	18,496
Intangible assets, net	60,654	59,205
Goodwill	16,135	9,172
Long-term receivable from related party	4,453	3,478
Other long-term assets	9,875	9,534
	$ 189,405	$ 164,080
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of financing obligation	$ 1,139	$ 992
Current portion of bank note payable	-	2,500
Accounts payable	9,294	7,758
Income taxes payable	1,365	869
Accrued liabilities	31,140	24,530
Total current liabilities	42,938	36,649
Financing obligation, less current portion	27,376	28,515
Bank note payable, less current potion	-	208
Other liabilities	6,106	1,152
Deferred income tax liabilities	6,479	7,001
Total liabilities	82,899	73,525

Commitments and contingencies (Notes 8 and 9)		
Shareholders' equity:		
Common stock, $.05 par value; 40,000 shares authorized, 27,056 shares issued	1,353	1,353
Additional paid-in capital	210,227	182,534
Common stock warrants	-	5,260
Retained earnings	40,429	26,110
Accumulated other comprehensive income	1,686	3,410
Treasury stock at cost, 10,759 shares and 9,365 shares	(147,189)	(128,112)
Total shareholders' equity	106,506	90,555
	$ 189,405	$ 164,080

See accompanying notes to consolidated financial statements.

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FRANKLIN COVEY CO.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

YEAR ENDED AUGUST 31,	2013	2012	2011
In thousands, except per-share amounts			
Net sales:			
Training and consulting services	$ 178,656	$ 158,779	$ 150,976
Products	8,114	8,456	7,455
Leasing	4,154	3,221	2,373
	190,924	170,456	160,804
Cost of sales:			
Training and consulting services	56,864	52,161	51,942
Products	3,122	3,839	3,674
Leasing	1,949	1,773	1,714
	61,935	57,773	57,330
Gross profit	128,989	112,683	103,474
Selling, general, and administrative	101,176	89,462	85,255
Depreciation	3,008	3,142	3,567
Amortization	3,191	2,499	3,540
Income from operations	21,614	17,580	11,112
Interest income	614	18	21
Interest expense	(2,332)	(2,482)	(2,687)
Discount on related-party receivables	(519)	(1,369)	-
Other income, net	21	-	-
Income before income taxes	19,398	13,747	8,446
Provision for income taxes	(5,079)	(5,906)	(3,639)
Net income	$ 14,319	$ 7,841	$ 4,807
Net income per share:			
Basic	$ 0.83	$ 0.44	$ 0.28
Diluted	0.80	0.43	0.27
Weighted average number of common shares:			
Basic	17,348	17,772	17,106
Diluted	17,971	18,360	17,547
COMPREHENSIVE INCOME:			

Net income	$ 14,319	$ 7,841	$ 4,807
Foreign currency translation adjustments	(1,724)	(182)	578
Comprehensive income	$ 12,595	$ 7,659	$ 5,385

See accompanying notes to consolidated financial statements.

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FRANKLIN COVEY CO.
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED AUGUST 31,	2013	2012	2011
In thousands			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 14,319	$ 7,841	$ 4,807
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	6,131	5,698	7,107
Amortization of capitalized curriculum costs	1,891	1,816	1,639
Deferred income taxes	(1,739)	2,708	2,092
Share-based compensation expense	3,589	3,835	2,788
Excess income tax benefits from share-based compensation	(903)	-	-
Loss (gain) on disposals of assets	(17)	36	101
Changes in assets and liabilities, net of effect of acquired business:			
Increase in accounts receivable, net	(15,171)	(5,810)	(1,288)
Decrease (increase) in inventories	(358)	96	382
Increase in receivable from related party	(692)	(1,349)	(688)
Decrease (increase) in prepaid expenses and other assets	(122)	(39)	2,128
Increase (decrease) in accounts payable and accrued liabilities	6,173	(197)	(3,534)
Increase in income taxes payable			