FRANKLIN COVEY CO
Form 10-Q
January 05, 2012

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended November 26, 2011

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission file no. 1-11107

FRANKLIN COVEY CO.
(Exact name of registrant as specified in its charter)

Utah (State of incorporation)	87-0401551 (I.R.S. employer identification number)
2200 West Parkway Boulevard Salt Lake City, Utah (Address of principal executive offices)	84119-2099 (Zip Code)
Registrant's	(801)

telephone number, Including area code	817-1776

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes £ No £

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

Large accelerated filer	£	Accelerated filer	T

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

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

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock as of the latest practicable date:

17,749,414 shares of Common Stock as of December 31, 2011

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

FRANKLIN COVEY CO.

CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)

	November 26, 2011	August 31, 2011
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$2,591	$3,016
Accounts receivable, less allowance for doubtful accounts of $747 and $798	29,739	32,412
Receivable from related party	6,381	5,717
Inventories	4,532	4,301
Deferred income taxes	2,992	3,005
Prepaid expenses and other assets	3,786	3,605
Total current assets	50,021	52,056
Property and equipment, net	19,093	19,143
Intangible assets, net	61,072	61,703
Goodwill	9,172	9,172
Other assets	9,847	9,353
	$149,205	$151,427
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of financing obligation	$890	$857
Line of credit	1,131	-
Current portion of bank note payable	2,500	2,292
Accounts payable	8,226	9,154
Income taxes payable	692	285
Accrued liabilities	17,444	22,813
Total current liabilities	30,883	35,401
Financing obligation, less current portion	29,269	29,507
Bank note payable, less current portion	2,083	2,708
Other liabilities	412	411
Deferred income tax liabilities	4,467	4,084
Total liabilities	67,114	72,111
Shareholders' equity:		
Common stock – $0.05 par value; 40,000 shares authorized, 27,056 shares issued and outstanding	1,353	1,353
Additional paid-in capital	180,609	179,515

Common stock warrants	5,260	5,260
Retained earnings	19,931	18,269
Accumulated other comprehensive income	3,416	3,592
Treasury stock at cost, 9,372 and 9,386 shares	(128,478)	(128,673)
Total shareholders' equity	82,091	79,316
	$149,205	$151,427

See notes to condensed consolidated financial statements.

FRANKLIN COVEY CO.

CONDENSED CONSOLIDATED INCOME STATEMENTS
(in thousands, except per share amounts)

	Quarter Ended	
	November 26, 2011	November 27, 2010
	(unaudited)	
Net sales:		
Training and consulting services	$36,382	$37,555
Products	2,463	1,276
Leasing	695	585
	39,540	39,416
Cost of sales:		
Training and consulting services	11,859	13,250
Products	735	681
Leasing	404	409
	12,998	14,340
Gross profit	26,542	25,076
Selling, general, and administrative	21,373	19,789
Depreciation	834	910
Amortization	631	929
Income from operations	3,704	3,448
Interest income	3	4
Interest expense	(633)	(711)
Income before income taxes	3,074	2,741
Provision for income taxes	(1,412)	(1,947)
Net income	$1,662	$794
Net income per share:		
Basic and diluted	$.09	$.05
Weighted average number of common shares:		
Basic	17,733	17,032
Diluted	17,998	17,115

See notes to condensed consolidated financial statements.

FRANKLIN COVEY CO.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Quarter Ended	
	November 26, 2011	November 27, 2010
	(unaudited)	
Cash flows from operating activities:		
Net income	$1,662	$794
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	1,489	1,839
Share-based compensation expense	1,191	381
Amortization of capitalized curriculum costs	478	423
Deferred income taxes	394	1,263
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable, net	2,530	(5,195)
Decrease (increase) in inventories	(268)	507
Decrease (increase) in receivable from related party, prepaid expenses, and other assets	(762)	102
Increase (decrease) in accounts payable and accrued liabilities	(6,502)	(2,701)
Decrease in other long-term liabilities	(2)	-
Increase in income taxes payable	410	438
Net cash provided by (used for) operating activities	620	(2,149)
Cash flows from investing activities:		
Purchases of property and equipment	(554)	(303)
Curriculum development costs	(1,097)	(1,001)
Net cash used for investing activities	(1,651)	(1,304)
Cash flows from financing activities:		
Proceeds from line of credit borrowing	5,942	16,265
Payments on line of credit borrowing	(4,811)	(14,449)
Principal payments on bank note payable	(417)	-
Principal payments on financing obligation	(213)	(178)
Proceeds from sales of common stock from treasury	99	77
Purchase of treasury shares	-	(4)
Net cash provided by financing activities	600	1,711
Effect of foreign exchange rates on cash and cash equivalents	6	(38)
Net decrease in cash and cash equivalents	(425)	(1,780)
Cash and cash equivalents at beginning of the period	3,016	3,484
Cash and cash equivalents at end of the period	$2,591	$1,704
Supplemental disclosure of cash flow information:		
Cash paid for interest	$630	$703
Cash paid for income taxes	511	288

Non-cash investing and financing activities:		
Acquisition of property and equipment through accounts payable	$428	$177

See notes to condensed consolidated financial statements.

FRANKLIN COVEY CO.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 – BASIS OF PRESENTATION

Franklin Covey Co. (hereafter referred to as us, we, our, or the Company) is a leading global provider of execution, leadership, and personal-effectiveness training. We operate globally with one common brand and set of offerings 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; 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. Our business-to-business service builds on our expertise in training, consulting, and technology that is designed to help our clients define great performance and engage their leaders and front-line employees to execute at the highest levels. We also help clients accelerate great performance through education in management skills, relationship skills, and individual effectiveness, and can provide personal-effectiveness literature and electronic educational solutions to our clients as needed. Our services and products are available through professional consulting services, training on-site at client locations by Franklin Covey consultants, training on-site at client locations by client employees who have been certified to deliver our content (facilitators), public workshops, and through a series of offerings delivered via the Internet. These offerings are described in further detail at www.franklincovey.com. We have some of the best-known offerings in the training industry, including a suite of individual-effectiveness and leadership-development training products based on the best-selling book, The 7 Habits of Highly Effective People and its execution process, The 4 Disciplines of Execution.

The accompanying unaudited condensed consolidated financial statements reflect, in the opinion of management, all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position and results of operations of the Company as of the dates and for the periods indicated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to Securities and Exchange Commission (SEC) rules and regulations. The information included in this quarterly report on Form 10-Q should be read in conjunction with the consolidated financial statements and related notes included in our annual report on Form 10-K for the fiscal year ended August 31, 2011.

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

The Company utilizes a modified 52/53-week fiscal year that ends on August 31 of each year. Corresponding quarterly periods generally consist of 13-week periods that end on November 26, 2011, February 25, 2012, and May 26, 2012 during fiscal 2012. Under the modified 52/53-week fiscal year, the quarter ended November 26, 2011 had one less business day than the quarter ended November 27, 2010. Unless otherwise noted, references to fiscal years apply to the 12 months ended on August 31 of the specified year.

The results of operations for the quarter ended November 26, 2011 are not necessarily indicative of results expected for the entire fiscal year ending August 31, 2012, or for any future periods.

At November 26, 2011, the carrying value of our financial instruments approximated their fair values.

NOTE 2 – ACCOUNTS RECEIVABLE

During the normal course of business, we may extend credit to our customers for their purchases of our services and products, which results in accounts receivable. Our trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts represents our best estimate of the amount of probable credit losses in the existing accounts receivable balance. We determine the allowance for doubtful accounts based upon historical write-off experience and current economic conditions, and we review the adequacy of the allowance for doubtful accounts on a regular basis. Receivable balances past due over 90 days, which exceed a specified dollar amount, are reviewed individually for collectibility. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Activity in our allowance for doubtful accounts was comprised of the following for the quarter ended November 26, 2011 (in thousands):

	Allowance for Doubtful Accounts
Balance at August 31, 2011	$ 798
Additions: charged to expense	23
Deductions: amounts written off	(74)
Balance at November 26, 2011	$ 747

Recoveries of amounts previously written off were insignificant during the quarter ended November 26, 2011.

NOTE 3 – INVENTORIES

Inventories are stated at the lower of cost or market, cost being determined using the first-in, first-out method, and were comprised of the following (in thousands):

	November 26, 2011	August 31, 2011
Finished goods	$ 4,396	$ 4,158
Raw materials	136	143
	$ 4,532	$ 4,301

NOTE 4 – SHARE-BASED COMPENSATION

We utilize various share-based compensation plans as integral components of our overall compensation and associate retention strategy. The compensation cost of our share-based compensation plans was included in selling, general, and administrative expenses in the accompanying condensed consolidated income statements and no share-based compensation was capitalized during the quarter ended November 26, 2011. The total cost of our share-based compensation plans was as follows for the periods presented (in thousands):

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	Quarter Ended			
	November 26, 2011		November 27, 2010	
Performance awards	$	925	$	50
Stock option vesting		168		112
Unvested share awards		80		102
Employee stock purchase plan		18		13
Fully vested stock awards		-		104
	$	1,191	$	381

The following is a description of recent developments in our share-based compensation plans.

Performance Awards

During the quarter ended November 26, 2011, the Compensation Committee of the Board of Directors granted a new performance based equity award for the Chief Executive Officer (CEO), Chief Financial Officer (CFO), and the Chief People Officer (CPO). A total of 106,101 shares may be awarded to the participants based on six individual vesting conditions that are divided into two performance measures, Adjusted EBITDA and Productivity Practice sales. Three tranches of 24,757 shares will immediately vest to the participants when consolidated trailing four-quarter Adjusted EBITDA totals $26.0 million, $33.0 million, and $40.0 million. Another three tranches of 10,610 shares will immediately vest when trailing four-quarter Productivity Practice sales total $20.5 million, $23.5 million, and $26.5 million. These performance awards have a maximum life of six years. Compensation expense is recognized as the Company determines that it is probable that the shares will vest. Adjustments to compensation expense to reflect the number of shares expected to be awarded will be made on a cumulative basis at the date of the adjustment.

There were no other performance awards granted or modified during the quarter ended November 26, 2011. Compensation expense recognized during the quarter ended November 26, 2011 for performance awards includes expense related to awards granted in previous periods.

Stock Options

We have an incentive stock option plan whereby options to purchase shares of our common stock are issued to key employees at an exercise price not less than the fair market value of our common stock on the date of grant. During the quarter ended November 26, 2011 we did not grant any new stock options or modify existing awards and there were no significant changes to the stock option information disclosed as of August 31, 2011. At November 26, 2011 we had no remaining unrecognized compensation expense related to our stock option awards.

Unvested Share Awards

Our annual unvested share awards granted to non-employee members of our Board of Directors is administered under the terms of the Franklin Covey Co.