

FRANKLIN COVEY CO
Form DEF 14A
December 03, 2001

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held
January 11, 2002

Franklin Covey Co.

You are cordially invited to attend the Annual Meeting of Shareholders of Franklin Covey Co. (the "Company"), which will be held on Friday, January 11, 2002, at 8:30 a.m., at the Hyrum W. Smith Auditorium, 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331 (the "Annual Meeting"), for the following purposes:

1. To elect four directors of the Company, each to serve a term of three years expiring at the annual meeting of shareholders of the Company to be held following the end of fiscal year 2004 and until their respective successors shall be duly elected and shall qualify;
2. To ratify the adoption of the Company's Management Loan Program to facilitate the acquisition of shares of the Company's stock by key members of management;
3. To consider and vote upon a proposal to ratify the adoption of Amended and Restated Bylaws of the Company to modernize the bylaws and to eliminate certain provisions;
4. To consider and vote upon a proposal to ratify the appointment of Arthur Andersen LLP as independent auditor of the Company for the fiscal year ending August 31, 2002; and
5. To transact such other business as may properly come before the Annual Meeting or at any adjournment or postponement thereof.

The Board of Directors has fixed the close of business on November 16, 2001, as the record date for the determination of shareholders entitled to receive notice of and to vote at the Annual Meeting and at any adjournment or postponement thereof.

All shareholders are urged to attend the meeting.

By Order of the Board of Directors

Robert A. Whitman
Chairman of the Board

December 13, 2001

IMPORTANT

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

2200 West Parkway Boulevard
Salt Lake City, Utah 84119-2331

PROXY STATEMENT

Annual Meeting of Shareholders
January 11, 2002

SOLICITATION OF PROXIES

This Proxy Statement is being furnished to the shareholders of Franklin Covey Co., a Utah corporation (the "Company"), in connection with the solicitation by the Board of Directors of the Company of proxies from holders of outstanding shares of the Company's Common Stock, \$0.05 par value per share (the "Common Stock") and outstanding shares of the Company's Series A Preferred Stock, no par value (the Series A Preferred Stock) for use at the Annual Meeting of Shareholders of the Company to be held on Friday, January 11, 2002, and at any adjournment or postponement thereof (the "Annual Meeting"). This Proxy Statement, the Notice of Annual Meeting of Shareholders and the accompanying form of proxy are first being mailed to shareholders of the Company on or about December 13, 2001.

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

VOTING

The Board of Directors has fixed the close of business on November 16, 2001, as the record date for determination of shareholders entitled to notice of and to vote at the Annual Meeting (the "Record Date"). As of the Record Date, there were issued and outstanding 19,881,531 shares of Common Stock and 852,157 shares of Series A Preferred Stock. The holders of record of the shares of Common Stock on the Record Date entitled to be voted at the Annual Meeting are entitled to cast one vote per share on each matter submitted to a vote at the Annual Meeting. The holders of record of Series A Preferred Stock on the Record Date are entitled to cast that number of votes equal to the number of shares of Common Stock each share of Series A Preferred Stock could be converted into, approximately 7.14 votes per share of Series A Preferred Stock or an aggregate of approximately 6,086,836 votes for all of the Series A Preferred Stock. The shares of Common Stock and Series A Preferred Stock vote together as a single class.

Proxies

Shares of Common Stock and Series A Preferred Stock which are entitled to be voted at the Annual Meeting and which are represented by properly executed proxies will be voted in accordance with the instructions indicated on such proxies. If no instructions are indicated, such shares will be voted FOR the election of each of the four director nominees, FOR the ratification of the amendment of the Bylaws of the Company, FOR the ratification of the adoption of the Company's Management Loan Program, FOR the ratification of the appointment of Arthur Andersen LLP as the independent auditor of the Company for the fiscal year ending August 31, 2002, and in the discretion of the proxy holder as to any other matters which may properly come before the Annual Meeting. A shareholder who has executed and returned a proxy may revoke it at any time prior to its exercise at the Annual Meeting by executing and returning a proxy bearing a later date, by filing with the Secretary of the Company, at the address set forth above, a written notice of revocation bearing a later date than the proxy being revoked, or by voting the Common or Series A Preferred Stock covered thereby in person at the Annual Meeting.

Vote Required

A majority of the votes entitled to be cast at the Annual Meeting is required for a quorum at the Annual Meeting. Abstentions and broker non-votes are counted for purposes of determining the presence or absence of a quorum for the transaction of business. In the election of the directors, the four nominees receiving the highest number of votes will be elected. Accordingly, abstentions and broker non-votes will not affect the outcome of the election. The ratification of the amended Bylaws, the ratification of the adoption of the Management Loan Program, the ratification of the appointment of Arthur Andersen LLP as independent auditor for the Company, and the approval of other matters which may properly come before the meeting generally requires the affirmative vote of a majority of those shares in attendance at the meeting in person or by proxy. Abstentions and broker non-votes will count as votes against these proposals. Holders of shares of Common Stock are entitled to one vote at the Annual Meeting for each share of Common Stock held of record at the Record Date. Holders of shares of Series A Preferred Stock are entitled to that number of votes equal to the number of shares of Common Stock into which their shares could be converted, approximately 7.14 votes per share.

ELECTION OF DIRECTORS

At the Annual Meeting, Stephen M. R. Covey, Robert H. Daines, E. J. "Jake" Garn, and Donald J. McNamara are to be elected to serve three-year terms expiring at the annual meeting of shareholders to be held following the end of fiscal year 2004 and until their successors shall be duly elected and qualified. If any of the nominees should be unavailable to serve, which is not now anticipated, the proxies solicited hereby will be voted for such other persons as shall be designated by the present Board of Directors. The four nominees receiving the highest number of votes at the Annual Meeting will be elected.

Nominees for Election to the Board of Directors

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

Stephen M. R. Covey, 39, has been Executive Vice President of the Company since May 1997 responsible for Strategic Alliances. From 1994 to 1997, Mr. Covey served as President and Chief Executive Officer of Covey Leadership Center. Mr. Covey joined Covey in 1989, serving in various capacities prior to his appointment as President and Chief Executive Officer, including Vice President of Client Services Group, Vice President of Corporate Development, and Managing Consultant. Mr. Covey earned an MBA from Harvard Business School and has professional work experience in different industries, including real estate development with Trammell Crow Company in Dallas, Texas. Mr. Covey is the son of Stephen R. Covey, Vice Chairman of the Board of Directors.

Robert H. Daines, 67, has been a director of the Company since April 1990. Dr. Daines is the Driggs Professor of Strategic Management at Brigham Young University, where he has been employed since 1959. Dr. Daines also currently serves on the board of directors for Volvo Commercial Credit Corporation and Alta Technology. Dr. Daines received his MBA from Stanford and his DBA from Indiana University.

E. J. "Jake" Garn, 69, was elected to serve as a director of the Company in January 1993. Mr. Garn is managing director of Summit Ventures, LLC with offices in Salt Lake City and Washington, DC. From December 1974 to January 1993, Mr. Garn was a United States Senator from the State of Utah. During his term in the Senate, Mr. Garn served six years as Chairman of the Senate Banking, Housing and Urban Affairs Committee and served on the Appropriations, Energy and Natural Resources, and Senate Rules Committees. Prior to his election to the Senate, Mr. Garn served as Mayor of Salt Lake City, Utah, from January 1972 to December 1974. Mr. Garn also currently serves as a director of Morgan Stanley Dean Witter Advisors (NYSE), NuSkin Asia Pacific Corporation (NYSE) and BMW Bank, NA (NASDAQ), and is a member of the Board of Trustees of Intermountain Health Care.

Donald J. McNamara, 48, was appointed to serve as a director of the Company in June 1999. Mr. McNamara is the founder of the Hampstead Group, LLC, a privately-held equity investment firm based in Dallas, Texas, and has served as its Chairman since its inception in 1989. He currently serves as Chairman of the Board of Directors of FelCor Lodging Trust (NYSE). Mr. McNamara also currently serves as a director of Legend Airlines, a director of Omega Healthcare Investors, Inc. (NYSE), a trustee of Saint Mark's School, a trustee of the Virginia Tech Foundation, and a member of the Urban Land Institute. He received his undergraduate degree from Virginia Tech and his MBA in 1978 from Harvard University.

Directors Whose Terms of Office Continue

In addition to the directors to be elected at the Annual Meeting, the directors named below will continue to serve their respective terms of office as indicated. Stephen R. Covey, Dennis G. Heiner, Brian A. Krisak, and Hyrum W. Smith are currently serving terms which expire at the annual meeting of the Company's shareholders to be held following the end of fiscal year 2002. Joel C. Peterson, E. Kay Stepp and Robert A. Whitman are currently serving terms which expire at the annual meeting of the Company's shareholders to be held following the end of fiscal year 2003. Brief statements setting forth certain biographical information concerning each continuing director appear below.

Edgar Filing: FRANKLIN COVEY CO - Form DEF 14A

Hyrum W. Smith, 58, a co-founder of the Company, has served as a director of the Company since December 1983 and has served as Vice Chairman of the Board of Directors since June 1999. Mr. Smith served as Chairman of the Board of Directors from December 1986 to June 1999. Mr. Smith served as the Chief Executive Officer of the Company from February 1997 to March 1998, a position he also held from April 1991 to September 1996. He was Senior Vice President of the Company from December 1984 to April 1991. Mr. Smith is author of *The Ten Natural Laws of Successful Time and Life Management* and *What Matters Most*. He is also a director of SkyWest, Inc. (NASDAQ), Greater Salt Lake Area Red Cross, and on the Advisory Board for the University of Utah School of Business.

Stephen R. Covey, 69, has been Vice Chairman of the Board of the Company since June 1999. Dr. Covey Served as Co-Chairman of the Board of Directors from May 1997 to June 1999. Dr. Covey founded Covey Leadership Center and served as its Chief Executive Officer and Chairman of the Board from 1980 to 1997. Dr. Covey received his MBA degree from Harvard Business School and his doctorate from Brigham Young University, where he was a professor of organizational behavior and business management from 1957 to 1983, except for periods in which he was on leave from teaching, and served as Assistant to the President and Director of University Relations. Dr. Covey is the author of several acclaimed books, including *The 7 Habits of Highly Effective People*, *Principle-Centered Leadership*, *The 7 Habits of Highly Effective Families*, and the co-author of *First Things First*. His newest books, *The Nature of Leadership*, co-authored with Roger Merrill and Dewitt Jones, and *Living the 7 Habits: Stories of Courage and Inspiration* were introduced in 1999. He is also a director of Points of Light foundation and a fellow of the Center for Organizational and Technological Advancement at Virginia Tech. Dr. Covey is the father of Stephen M. R. Covey, a director and Executive Vice President of the Company.

Dennis G. Heiner, 58, was appointed as a director of the Company in January 1997. Mr. Heiner has served as president and chief executive officer of Werner Co., a leading manufacturer of climbing products and aluminum extrusions, since 1999. Prior to joining Werner, he was employed by Black & Decker Corporation from 1985 to 1999 where he served as Executive Vice President and President of the Security Hardware Group, a world leader in residential door hardware.

Brian A. Krisak, 50, was appointed to the Board of Directors in June 1999. Mr. Krisak is a principal of the Hampstead Group L.L.C., a privately-held equity investment firm based in Dallas, Texas. Mr. Krisak joined The Hampstead Group in January 1999. Prior to joining Hampstead, Mr. Krisak served as vice president and general manager of PICO, Inc., a satellite and wireless communications firm in the transportation industry, from 1997 to 1999 and owned and operated Krisak Consulting from 1993 to 1997. He also has served as chief executive officer of the Columbia-Free State Health System, president of Nicholas Coffee and senior vice-president of Elkin's Coffee. He received his degree in Government and Law from Lafayette College in 1973 and his MBA in 1978 from Harvard University.

Joel C. Peterson, 54, has been a director of the Company since May 1997. Mr. Peterson served as a director of Covey Leadership Center ("Covey") from 1993 to 1997 and as Vice Chairman of Covey from 1994 to 1997. Mr. Peterson is also chairman of Peterson Ventures, Inc., a privately-held equity investment firm and is chairman of the board of directors for Essex Capital, a real estate development and management company. Mr. Peterson also serves on the boards of directors of Road Rescue, Dermody Properties, AccuDocs, JetBlue and Bay Logics, Inc. Mr. Peterson earned his MBA from Harvard Business School.

E. Kay Stepp, 56, has been a director of the Company since May 1997. Ms. Stepp served as a director of Covey Leadership Center from 1992 to 1997. Ms. Stepp is the former president and chief operating officer of Portland General Electric, an electric utility, and former chairman of the board of Gardenburger, Inc. (NASDAQ). Ms. Stepp is also currently a director of StanCorp Financial Group (NYSE), Planar Systems, Inc. (NASDAQ), and is a founding director of the Bank of the Northwest (NASDAQ). She is a former director of the Federal Reserve Bank of San Francisco. She received her Bachelor of Arts degree from Stanford University and a Master in Arts in Management from the University of Portland and attended the Stanford Executive Program.

Robert A. Whitman, 48, has been a director of the Company since May 1997 and has served as Chairman of the Board of Directors since June 1999 and Chief Executive Officer of the Company since July 1999. Mr. Whitman served as a director of Covey from 1994 to 1997. Prior to joining the Company, Mr. Whitman served as president and co-chief executive officer of the Hampstead Group L.L.C., a privately-held equity investment firm based in Dallas, Texas, from 1992 to 2000. Mr. Whitman received his Bachelor of Arts degree in Finance from the University of Utah and his MBA from Harvard Business School.

Committees, Meetings and Reports

The Board of Directors has standing Executive, Audit, Nominating and Compensation Committees. The Executive Committee presently consists of Messrs. Joel Peterson, Chairperson and Robert Whitman. The members of the Audit Committee are Messrs. Jake Garn, Chairperson, Robert Daines and Joel Peterson, each of whom is independent as defined in the New York Stock Exchange listing standards. The Nominating Committee consists of Messrs. Stephen R. Covey and Hyrum Smith. The Compensation Committee consists of Ms. Kay Stepp, Chairperson, and Messrs. Dennis Heiner, Brian Krisak and Robert Daines.

The Executive Committee met four times during the 2001 fiscal year. Its functions are to oversee: the day-to-day operations of the Company, employment rights and compensation of designated key employees and to make recommendations with respect thereto to the Compensation Committee and the Board of Directors; and to establish the agenda for the Board of Directors meetings.

Edgar Filing: FRANKLIN COVEY CO - Form DEF 14A

The Audit Committee met six times during the 2001 fiscal year. Its functions are set forth in the Audit Committee charter, a copy of which is included as Appendix A, including: (i) to review and approve the selection of, and all services performed by, the Company's independent auditors; (ii) to review the Company's internal controls and audit functions; and (iii) to review and report to the Board of Directors with respect to the scope of internal and external audit procedures, accounting practices and internal accounting, and financial and risk controls of the Company.

The Nominating Committee met once during the 2001 fiscal year. The Nominating Committee has exclusive authority to nominate individuals for election to the following offices: President, Chief Executive Officer, Chief Financial Officer and individuals to be nominated by the Board of Directors to serve on the Board of Directors or committees of the Board.

The Compensation Committee met four times during the 2001 fiscal year. Its functions are: (i) to review, and make recommendations to the Board of Directors regarding the salaries, bonuses and other compensation of the Company's Chairman of the Board and executive officers; and (ii) to review and administer any stock option, stock purchase plan, stock award plan and employee benefit plan or arrangement established by the Board of Directors for the benefit of the executive officers and employees of the Company.

During the 2001 fiscal year, there were six meetings held by the Board of Directors of the Company. All directors attended more than 75% of the board meetings. No director attended fewer than 75% of the total number of meetings of the committees on which he or she served.

Director Compensation

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

EXECUTIVE OFFICERS

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

Val John Christensen, 47, has been Secretary and General Counsel of the Company since January 1990 and an Executive Vice President since March 1996. Mr. Christensen served as a director of the Company from July 1991 to June 1997. From January 1990 to March 1996, Mr. Christensen served as a Senior Vice President of the Company. From March 1987 to November 1989, Mr. Christensen was engaged in the private practice of law with the law firm of LeBoeuf, Lamb, Lieby & MacRae, specializing in general business and business litigation matters. From 1983 until he joined the Company, Mr. Christensen acted as outside counsel to the Company.

Darl McBride, 42, recently joined the Company in July 2000 as the President of www.franklinplanner.com, the online services group of the Company and Executive Vice-President of Business Development. Mr. McBride served previously as the CEO of PointServe, Inc., an online service fulfillment company and was the founder and CEO of SolutionBank, Inc., a web services integration company. Additionally, he held various executive management positions at Novell, Inc., for eight years. Mr. McBride has held executive positions in the technology industry for nearly twenty years, during which time he has established domestic and international industry partnerships with such companies as Softbank, Sony, Canon, Microsoft, IBM, Compaq and HP. Mr. McBride was listed as one of the top twenty executives to watch, CRN 1996, and holds a Bachelor of Arts from Brigham Young University and a Master of Arts from Illinois University.

Mikell Rigg McGuire, 36, has been General Manager of the Organizational Business Unit since July 2001 in charge of sales, delivery and all administration of training and tools to organizational clients. Ms. Rigg McGuire served as Executive Vice President of the International Division from February 1999 to July 2001. Ms. Rigg McGuire joined the Company in 1990 in International Sales. She has held various positions within the Company including Vice President of Sales in Canada, General Manager of the Canadian office and Area Vice President of the Americas.

Scott Nielsen, 43, has been Senior Vice President and Treasurer of the Company since January 2000. He joined the Company in 1994 and has held various finance positions including Vice President of Finance and Controller with duties including mergers, acquisitions, divestitures, and performance analysis. Prior to joining the Company, Mr. Nielsen was a senior audit manager for Price Waterhouse. Mr. Nielsen is a Certified Public Accountant (CPA).

Edgar Filing: FRANKLIN COVEY CO - Form DEF 14A

Pam Walsh, 52, has been Executive Vice President of Talent Development since February 2001. Prior to accepting the position, she owned her own executive coaching practice, Courage Inc, where she served a national clientele from 1998 to 2001. During that time she earned the Professional Certified Coach status from the International Coach Federation and completed a 2-year coaching study program. Ms. Walsh joined Covey Leadership Center in 1994, as a senior consultant in the sales group, and served as Vice President of the human resources group until leaving in 1998. Ms. Walsh has 20 years of talent development and coaching experience serving many Fortune 500 clients. Ms. Walsh holds a Bachelor of Arts from Penn State University.

Steve Young, 48, joined Franklin Covey as Senior Vice President of Finance, Chief Accounting Officer and Controller in January 2001. Prior to joining the Company he served as Chief Financial Officer for Weider Nutrition for seven years. Mr. Young has 22 years of accounting and management experience. Mr. Young is a CPA and holds an MBA from Brigham Young University.

EXECUTIVE COMPENSATION

The compensation of Robert A. Whitman, the Company's Chief Executive Officer and the four other most highly paid executive officers during the fiscal year ended August 31, 2001 is shown on the following pages in three tables and discussed in a report from the Compensation Committee of the Board of Directors.

Summary Compensation Table

Name and Position	Fiscal Year	Annual Compensation		Other Annual Compensation (1)	Long Term Compensation Awards	
		Salary	Bonus		Restricted Stock Awards (2)	Options/SARs (#) (3)
Robert A. Whitman	2001	\$423,080	\$ --	\$311,341	--	1,602,000
	2000	336,539	333,333	22,990	--	--
	1999	--	--	14,000	--	--
Val J. Christensen ...	2001	300,000	134,663	1,302	26,250	--
	2000	320,708	150,000	--	--	--
	1999	163,323	90,000	--	--	90,300
Stephen M.R. Covey ...	2001	270,769	49,622	1,730	--	--
	2000	225,885	188,000	--	--	--
	1999	181,731	90,000	--	--	25,000
Darl McBride	2001	250,000	137,021	3,080	--	--
	2000	44,231	25,479	--	--	--
	1999	--	--	--	--	--
Mikell Rigg-McGuire ..	2001	275,962	140,000	188	6,563	--
	2000	173,077	86,050	--	--	--
	1999	140,577	45,200	--	--	--

- (1) Includes compensation paid to Mr. Whitman as a member of the Board of Directors for fiscal year 1999 and a travel allowance for fiscal years 2000 and 2001. Other amounts relate to miscellaneous benefits paid during the year.
- (2) Restricted stock awards vest in full four years from the date of grant. No vesting occurs prior to four years from grant. Holders of restricted shares are entitled to vote the shares.
- (3) Amounts shown reflect options granted to the named executive officers pursuant to the Franklin Covey 1992 Stock Incentive Plan (the Incentive Plan) or in the case of Mr. Whitman the Non-Qualified Executive Stock Option Plan. As of August 31, 2001, the Company had not granted any stock appreciation rights.
- (4)

Edgar Filing: FRANKLIN COVEY CO - Form DEF 14A

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

Option/SAR Grants in Last Fiscal Year

The following table sets forth individual grants of stock options made by the Company during the fiscal year ended August 31, 2001 to the persons named in the preceding Summary Compensation Table. As of August 31, 2001, the Company had not granted any stock appreciation rights to the executive officers named below.

Name	Options Granted	Percent of Total Options Granted to Employees in Fiscal year	Exercise or Base Price(1)	Expiration Date	Potential Realizable Assumed Annual Stock Price Appreciation the Option T 5%
Robert A. Whitman	1,602,000	88.8%	\$ 14.00	9/1/08	(1)
Val J. Christensen	--	--	--	--	--
Stephen M. R. Covey	--	--	--	--	--
Darl McBride	--	--	--	--	--
Mikell Rigg McGuire	--	--	--	--	--

- (1) Mr. Whitman's options were granted at a \$14.00 exercise price at a time when the market price was \$6.56. The options would have no potential realizable value at the assumed appreciation of 5% during the 10-year life of the options.
- (2) Under the terms of these options, the options will not vest and become exercisable unless and until the trading price of the Company's Common Stock exceeds \$20 per share. The amount reflected above assumes this condition has been satisfied.

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

The following table sets forth the number of shares of Common Stock acquired during the fiscal year ended August 31, 2001, upon the exercise of stock options, the value realized upon such exercise, the number of unexercised stock options held on August 31, 2001, and the aggregate value of such options held by the persons named in the Summary Compensation Table. This table reflects options to acquire shares of Common Stock granted to the named individuals by the Company and by certain affiliates of the Company. As of August 31, 2001, the Company had not granted any stock appreciation rights to any of the executive officers named below.

Name	Number of Shares Acquired on Exercise	Value Realized on Exercise (1)	Number of Unexercised Options at August 31, 2001		Value In-the-Money August 31, 2001
			Exercisable	Unexercisable	Exercisable
Robert A. Whitman.....	--	\$ --	--	1,602,000	\$ --
Val John Christensen.....	--	--	51,650	47,650	15,300
Stephen M. R. Covey.....	--	--	12,500	12,500	--
Darl McBride.....	--	--	--	--	--
Mikell Rigg McGuire.....	--	--	16,250	28,750	--

- (1) Reflects the difference between the exercise price of the options exercised and the market value of the Common Stock on the date of such exercise, as reported by the New York Stock Exchange.
- (2) Reflects the difference between the exercise price of the unexercised options and the market value of the Common Stock on August 31, 2001. The last sale price of the Common Stock on August 31, 2001, as reported by the New York Stock Exchange, was \$4.49 per share.

Employment Agreements

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

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

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

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

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

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

retain an additional amount equal to the exercise tax. During the term of the agreement and for a period of three years thereafter, Mr. Whitman has agreed not to engage in any competitive activity with the Company. In addition, Mr. Whitman agrees not to attempt to solicit or hire key employees of the Company for a period of two years after termination of the agreement.

Compensation Committee Report

The report was prepared by the Compensation Committee of the Board of Directors (the "Committee"), which is composed of independent directors who are not employees of the Company or its subsidiaries. The Committee has responsibility for all compensation matters for the Company's Chairman and the Company's President and Chief Executive Officer (the "Key Executives"). It also has the responsibility of administering the Incentive Plan. The Key Executives determine the amount of cash compensation for executive officers other than the Key Executives. The Committee determines the amount of cash compensation under the Incentive Plan for all executive officers, including the Key Executives. The current members of the Committee are Kay Stepp, who serves as Chairperson, Robert Daines, Dennis Heiner and Brian Krisak. The Committee met four times during fiscal year 2001.

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

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

Key Executive Compensation. Key Executive Compensation consists of annual salaries and additional compensation in the form of cash performance-based bonuses, stock ownership plans, stock options and restricted stock awards as the Committee in its discretion awards to the Key Executives. The annual salaries of the Key Executives are set at amounts that are deemed competitive for executives with comparable ability and experience, taking into account existing salaries with respect to executives in companies comparable in size and complexity to the Company. Performance-based bonuses were awarded to the Key Executives in fiscal year 2001 reflecting the Company's overall performance.

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

Executive Stock Ownership Program. The Company believes it is essential for all executive officers to have a vested interest in the Company, thereby aligning the long-term interest of executives with those of stockholders. Each executive officer is strongly encouraged to accumulate and maintain ownership in the Company equal to 25% of their annual income, including performance-based bonuses. In this connection, the Company has facilitated personal loans to the executives through lending institutions to buy the stock on the open market. During fiscal year 2001, the Company bought those loans from the lending institutions and include them in its financial statements.

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

As of August 31, 2001, executive officers held incentive stock options to purchase an aggregate of 1,951,300 shares of Common Stock granted under the direction of the Committee pursuant to the Incentive Plan since its inception in 1992 and the Non-Qualified Executive Stock Option Plan of 2000. Of those options, 115,400 are currently exercisable.

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

Edgar Filing: FRANKLIN COVEY CO - Form DEF 14A

contributions; and (iii) the Company's Employee Stock Purchase Plan implemented and administered pursuant to Section 423 of the Code.

Respectfully submitted,

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

Performance Graph

The following graph shows a comparison of cumulative total shareholder return, calculated on a dividend reinvested basis, for the five fiscal years ended August 31, 2001, for the Common Stock, the S&P 600 SmallCap Index in which the Company is included and the S&P Miscellaneous Industry Index, the index to which the Company believes it would be assigned if it were included in the S&P 500. The Company has been advised that the S&P Miscellaneous Industry Index includes ten corporations, many of which, like the Company, are of a diversified nature.

Years Ending:	Aug-96	Aug-97	Aug-98	Aug-99	Aug-00	Aug-01
FRANKLIN COVEY CO	100.00	136.30	102.74	42.46	36.30	24.24
S&P SMALLCAP 600 INDEX	100.00	134.11	109.57	138.37	177.37	178.33
CONSUMER (JWRLY, NVL, GFT) -SMALL	100.00	134.81	108.25	68.52	42.71	56.99

PRINCIPAL HOLDERS OF VOTING SECURITIES

The following table sets forth information as of November 1, 2001, with respect to the beneficial ownership of shares of Common Stock and Series A Preferred Stock by each person known by the Company to be the beneficial owner of more than 5% of Common Stock or Series A Preferred Stock, by each director, by each executive officer named in the Summary Compensation Table and by all directors and officers as a group. Unless noted otherwise, each person named has sole voting and investment power with respect to the shares indicated. The percentages set forth below have been computed without taking into account treasury shares held by the Company and are based on 19,881,533 shares of Common Stock and 852,157 shares of the Series A Preferred Stock outstanding as of November 1, 2000. In cases where shareholders own both Common Stock and Series A Preferred Stock, the number of shares shown assumes the conversion of the Series A Preferred Stock into the Common Stock and the issued and outstanding Common Stock is increased by an equal amount for that shareholder. The shares of Series A Preferred Stock are shown on an "as converted basis" with approximately 7.14 shares of Common Stock issuable on conversion of each share of Series A Preferred Stock.

	Beneficial Ownership as of November 1, 2001	
	Number of Shares	Percentage of Class
Common Stock and Common Stock Equivalents:		
Knowledge Capital Investment Company (1) (2)	6,784,059	26.4%
2200 Ross Avenue, Suite 42-W		
Dallas, Texas 75201		
Stephen R. Covey (3)	1,927,384	9.7
c/o Franklin Covey Co.		
2200 West Parkway Boulevard		
Salt Lake City, Utah 84119-2331		
Dimensional Fund Advisors, Inc.	1,553,800	7.8
1299 Ocean Avenue		
Santa Monica, California 90401		
Dennis R. Webb (3) (4)	1,075,712	5.4
c/o Franklin Covey Co.		
2200 West Parkway Boulevard		
Salt Lake City, Utah 84119-2331		
Yackman Asset Management (1)	1,085,049	5.4

Edgar Filing: FRANKLIN COVEY CO - Form DEF 14A

303 West Madison
Chicago, Illinois 60606

Hyrum W. Smith(3) (4).....	470,637	2.4
Stephen M. R. Covey.....	371,662	1.9
Robert A. Whitman(2).....	315,210	1.6
Val John Christensen(5).....	307,156	1.5
Mikell Rigg McGuire(5).....	251,549	1.3
Darl McBride(5).....	246,768	1.2
Joel C. Peterson.....	144,474	*
Donald J. McNamara(2).....	82,210	*
Robert H. Daines(6).....	20,002	*
Brian A. Krisak(2).....	10,000	*
E. J. "Jake" Garn.....	4,000	*
Dennis G. Heiner.....	3,000	*
Kay E. Stepp.....	3,000	*
All directors and executive officers		
As a group (22 persons) (1) (2) (4) (5).....	11,561,353	44.9%

* Less than 1%.

- (1) The Series A Preferred Stock is convertible into Common Stock at a rate of approximately 7.14 shares of Common Stock for each share of Series A Preferred Stock. The number of shares shown for Knowledge Capital Investment Company and Yacktmán Asset Management include 807,668 and 10,284 shares of the Series A Preferred Stock, respectively, shown on an as converted basis as 5,769,057 and 73,454 shares of Common Stock respectively. The holdings of Knowledge Capital Investment Company and Yacktmán Asset Management represent 94.8% and 1.2% of the issued and outstanding Series A Preferred Stock, respectively.
- (2) Messrs. Whitman, Krisak and McNamara, each of whom is a director of the Company and, in the case of Mr. Whitman, an executive officer of the Company, are principals of the private investment firm that sponsors Knowledge Capital and therefore may be deemed the beneficial owner of the Common Stock and the Series A Preferred Stock and the shares of Common Stock into which the Series A Preferred Stock may be converted. Each of Messrs. Whitman, Krisak and McNamara disclaim beneficial ownership of the Common Stock and the Series A Preferred Stock and of the Common Stock into which the Series A Preferred Stock may be converted.
- (3) The share amounts indicated for Hyrum W. Smith are owned of record by Hyrum W. Smith as trustee of The Hyrum W. Smith Trust with respect to 329,700 shares; those indicated for Dennis R. Webb, by Dennis R. Webb as trustee of The Lighthouse Foundation with respect to 82,500 shares; and those indicated for Stephen R. Covey by Stephen R. Covey as Trustee of The Gathering For Zion Foundation with respect to 505,000 shares; and for SRS MC, LLC with respect to 40,000 shares; and for SANSTEP Properties, LLC with respect to 1,382,384 shares. Messrs. Smith and Webb are the respective trustees of those trusts and foundations, having sole power to vote and dispose of all shares held by the respective trusts and foundations, and may be deemed to have beneficial ownership of such shares. Mr. Covey, as a trustee of the Gathering for Zion Foundation and as co-manager of SRS MC, LLC and SANSTEP, LLC, has shared voting and dispositive control over the shares held by those entities and may be deemed to have beneficial ownership of such shares.
- (4) Some of the share amounts indicated as beneficially owned are subject to options granted to other directors, officers and key employees of the Company by the following persons in the following amounts: Hyrum W. Smith, 49,350 shares, and Dennis R. Webb, 19,500 shares.
- (5) The share amounts indicated include shares subject to options currently exercisable held by the following persons in the following amounts: Val John Christensen, 54,150 shares; Stephen M. R. Covey, 12,500 shares; Mikell Rigg McGuire, 16,250 shares; and all executive officers and directors as a group, 115,400 shares.
- (6) The share amounts indicated for Robert H. Daines include 5,000 shares owned by Tahoe Investments, L.L.C., a Utah limited liability company, of which Mr. Daines is a member.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires the Company's directors and executive officers, and persons who own more than 10% of the Common Stock, to file with the Securities and Exchange Commission (the "Commission")

Edgar Filing: FRANKLIN COVEY CO - Form DEF 14A

initial reports of ownership and reports of changes in ownership of the Common Stock and other securities which are derivative of the Common Stock. Executive officers, directors and holders of more than 10% of the Common Stock are required by Commission regulations to furnish the Company with copies of all such reports they file. Based upon a review of the copies of such forms received by the Company and information furnished by the persons named below, the Company believes that all reports were filed on a timely basis.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In connection with the merger between the Company and Covey Leadership Center, Stephen R. Covey, who is vice-chairman of the Board of Directors, entered into a Speaker Services Agreement with the Company pursuant to which Dr. Covey receives 20% of the proceeds from personal speaking engagements, which resulted in a payment of \$3.5 million to Dr. Covey for the fiscal year ended August 31, 2001. Also in connection with this transaction, the Company entered in a 12-year lease agreement expiring in 2009 on two office buildings located in Provo, Utah where the operations of Covey formerly conducted by Covey continued to be located. The buildings are leased from entities in which Stephen R. Covey and Stephen M. R. Covey, executive officers and/or directors of the Company have a 35% and 11% interest, respectively. Lease rentals paid in fiscal 2001 were \$2,127,813. The Company believes the terms of the leases, including the lease rentals, are at least as favorable as could be obtained from unrelated third parties.

Robert A. Whitman, the Company's Chairman and Chief Executive Officer, and Messrs. Donald J. McNamara and Brian A. Krisak, directors of the Company, are principals of the Hampstead Group, L.L.C., a Texas limited liability company, the private investment firm that sponsors Knowledge Capital Investment Company, the holder of 95% of the Company's outstanding Series A Preferred Stock, and of Hampstead Interests, LP, a Texas limited partnership. On June 2, 1999, the Company and Hampstead Interests, LP entered into a Monitoring Agreement which provides for payment of a monitoring fee of \$100,000 per quarter to Hampstead Interests, LP for assisting the Company in strategic planning, including acquisitions, divestitures, new development and financing matters. The agreement continues so long as Knowledge Capital Investment Group owns more than 50% of the 750,000 shares of Series A Preferred Stock (or Common Stock equivalents) originally purchased. The Company paid \$400,000 to Hampstead Interests, LP during the fiscal year ended August 31, 2001, pursuant to the Monitoring Agreement.

Premier Agendas ("Premier"), a subsidiary of the Company, had trade accounts payable to various companies which are partially owned by certain former owners of Premier totaling \$0.5 million and \$2.1 million at August 31, 2001 and 2000, respectively. In addition, Premier had notes payable to key employees and former key employees totaling \$1.5 million and \$1.4 million as of August 31, 2001 and 2000, respectively (see Note 6 to Financial Statements). The notes payable were used for working capital, are due upon demand, and have interest rates which approximate prevailing market rates.

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

RATIFICATION OF MANAGEMENT LOAN PROGRAM

During our 2000 fiscal year, we adopted our Management Stock Purchase Loan Program to assist key management personnel in purchasing shares of our common stock. The Company facilitated loans from a third-party lender to management employees participating in the Management Loan Program for the purpose of buying common stock on the open market or from shares previously acquired by the Company by providing a guarantee of such loans to the lender. The notes are full recourse to the individual participants borrowing the funds to purchase shares. The loan program closed during fiscal 2001 with approximately 140 participants purchasing approximately 3,825,000 shares for a total cost of \$33.6 million.

As part of our refinancing of our major lines of credit in July 2001, we acquired all of the management loans from the third-party lender. Under the terms of the new credit agreement, we are now the lender on these full-recourse loans from the participants in the loan program. At the end of our most recent fiscal year, August 31, 2001, the participant loans exceeded the value of the common stock held by the participants by \$18.9 million. We established a non-cash loan loss reserve provision of \$1.1 million in connection with these loans, which was included in our operating costs for the fourth quarter.

The participant loans bear interest at 9.4% and the principal and all accrued interest are due and payable in March 2005. The loans can be accelerated by the Company in the event that the participant is no longer an employee. The loans may be prepaid at any time, subject to a prepayment penalty based on interest rates and the unexpired term of the original loan.

The management loan program was initiated to provide an opportunity for management employees to invest in the common stock of the Company, thereby aligning their interests with those of the stockholders. Under the terms of certain provisions of our bylaws, we are prohibited from lending money or using our credit to assist officers, directors, or control persons unless such loan or assistance benefits us. We believe that providing management with an opportunity to invest in our common stock and thus providing them with a personal stake in increasing stockholder value is of direct benefit to the Company. We are seeking ratification of the management loan program to seek stockholder confirmation of this program.

Edgar Filing: FRANKLIN COVEY CO - Form DEF 14A

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE SHAREHOLDERS VOTE IN FAVOR OF THE PROPOSAL TO RATIFY THE COMPANY'S MANAGEMENT STOCK PURCHASE LOAN PROGRAM

RATIFICATION OF AMENDED AND RESTATED BYLAWS

The Board of Directors has approved the adoption of amended and restated bylaws for the Company. Our previous bylaws were adopted in 1992 and do not reflect changes that have occurred in laws and policy concerning corporate governance since that time. The adoption of the new bylaws will make them consistent with the corporate code of the state of Utah where we are incorporated.

The following summary discusses the material difference between our existing bylaws and the provisions of the new amended and restated bylaws. However, it is only a summary and you should review the provisions of the new amended and restated bylaws attached to this Proxy Statement to be more familiar with all of the provisions.

The amended and restated bylaws have several changes to reflect changes in the Company and its practices, including:

- The change in our name to Franklin Covey Co.
- The elimination of fixed quarterly board meetings, which are now set by the board.
- The change of the default date for regular annual meetings of shareholders from the second Monday of each January to the second Friday.
- A change to expressly permit proxies to be delivered by facsimile or electronic transmission.
- Elimination of any distinction between treasury shares and other shares issued by the Company.
- The elimination of a corporate seal, which is not typically used in modern transactions, and the clarification of the powers of the Board in establishing committees and others to act on its behalf.

The amended and restated bylaws also update the provisions that deal with the fixing of a record date for shareholder meetings and the availability of a shareholder list during the ten days preceding the shareholders' meeting in order to make these provisions consistent with governing Utah law.

Article VI of the bylaws, which deals with the indemnification of our directors and officers, was simplified to provide that we will indemnify these individuals to the full extent permitted by applicable law. Article II, Section 9, is also amended to change the vote necessary to approve a proposal presented at a shareholders' meeting at which a quorum is present from the affirmative vote of a majority of the shares present to more votes cast in favor of the proposal than cast against the proposal. This eliminates abstentions, where shareholders simply elect not to vote on a particular proposal or where the record holder has not received authority from the beneficial holder to vote on that proposal, from having the same effect as a vote against the proposal. Under the new provision, proposals will be passed if more shareholders vote for the proposal than vote against it.

Article VII, Section 4, of the old bylaws which provided for limitations on loans by the Company to officers, directors, and control persons, except in circumstances in which it was beneficial to the Company, has been eliminated to avoid questions concerning the circumstances under which it is beneficial. Under the new amended and restated bylaws, the Board of Directors will be responsible for determining whether or not it is appropriate to extend credit to officers, directors, and control persons. The new bylaws also eliminate the obligation of the Company to report director compensation to the shareholders, which is governed by the United States securities laws. They also clarify that a quorum for directors meetings consists of a majority of the directors then in office rather than a majority of the number of directors previously fixed as the size of the board, to avoid difficulties in obtaining a quorum if there are a number of vacancies on the Board.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE SHAREHOLDERS VOTE IN FAVOR OF THE PROPOSAL TO RATIFY THE COMPANY'S AMENDED AND RESTATED BYLAWS.

SELECTION OF AUDITOR

The Audit Committee of the Board of Directors has recommended, and the Board of Directors has selected, the firm of Arthur Andersen LLP, independent certified public accountants, to audit the financial statements of the Company for the fiscal year ending August 31, 2002, subject to ratification by the shareholders of the Company. The Board of Directors anticipates that one or more representatives of Arthur Andersen will be present at the Annual Meeting and will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Audit Fees

The Company paid an aggregate amount of approximately \$230,000 in fees and expenses to Arthur Andersen for professional services rendered in connection with its audit of the Company's consolidated financial statements and reviews of the consolidated financial statements included in the Company's quarterly reports on Form 10-Q for the 2001 fiscal year.

Audit Related Fees

The Company paid Arthur Andersen an aggregate of approximately \$145,000 in fees and expenses for audit related professional services. In general, these services include employee benefit plans audits, permitted assistance with internal audit activities and accounting assistance on proposed transactions and standards.

Financial Information Systems Design and Implementation Fees

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

All Other Fees

The Company paid Arthur Andersen \$963,000 in fees and expenses for other services during fiscal year 2001. "Other services" primarily included income tax planning, consulting and compliance services and consulting projects related to the Company's retail operations.

The Audit Committee has reviewed the amounts paid to Arthur Andersen for audit and audit related services and all non-audit services and has determined that the fees paid non-audit services provided to the Company by Arthur Andersen are compatible with maintaining Arthur Andersen's independence as the auditors of the Company's financial statements.

Audit Committee Report

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

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

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

The Committee reviewed the audited financial statements of the Company as of and for the fiscal year ended August 31, 2001, with management and the independent auditors.

Based on the above-mentioned review and discussions with management and the independent auditors, the Committee recommended to the Board that the Company's audited financial statements be included in its Annual Report on Form 10-K for the fiscal year ended August 31, 2001, for filing with the Securities and Exchange Commission. The Committee also recommended the reappointment, subject to shareholder approval, of the independent auditors and the Board concurred in such recommendation.

Date: November 9, 2001

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

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE SHAREHOLDERS VOTE IN FAVOR OF THE PROPOSAL TO RATIFY THE SELECTION OF ARTHUR ANDERSEN, LLP AS INDEPENDENT CERTIFIED PUBLIC ACCOUNTS FOR THE COMPANY FOR THE FISCAL YEAR ENDING AUGUST 31, 2002.

OTHER MATTERS

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

PROPOSALS OF SHAREHOLDERS

Proposals which shareholders intend to present at the annual meeting of shareholders to be held in calendar 2003 must be received by Val John Christensen, Executive Vice President, Secretary and General Counsel of the Company, at the Company's executive offices (2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331) no later than August 15, 2002.

ADDITIONAL INFORMATION

The Company will provide without charge to any person from whom a Proxy is solicited by the Board of Directors, upon the written request of such person, a copy of the Company's 2001 Annual Report on Form 10-K, including the financial statements and schedules thereto (as well as exhibits thereto, if specifically requested), required to be filed with the Securities and Exchange Commission. Written requests for such information should be directed to Franklin Covey Co., Investor Relations Department, 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331, Attn: Mr. Richard Putnam.