FRANKLIN COVEY CO Form 10-Q April 11, 2013

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 March 2, 2013

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

number, 817-1776 Including area code

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 T 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 T | | |
|-------------------|----|----------------------------|-----------|---|
| accelerated filer | • | | | |
| Non-accelerated | l£ | (Do not check if a smaller | Smaller | £ |
| filer | | reporting company) | 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:

16,322,425 shares of Common Stock as of March 29, 2013

PART I. FINANCIAL INFORMATION ITEM 1. FINANCIAL STATEMENTS

FRANKLIN COVEY CO.

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

| | March 2, 2013 (una | August 31, 2012 idited) | |
|---|--------------------------|-------------------------------|--|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$15,541 | \$11,011 | |
| Accounts receivable, less allowance for doubtful accounts of \$644 and \$851 | 31,712 | 38,087 | |
| Receivable from related party | 608 | 3,588 | |
| Inventories | 3,816 | 4,161 | |
| Deferred income tax assets | 3,522 | 3,634 | |
| Prepaid expenses and other current assets | 4,674 | 3,714 | |
| Total current assets | 59,873 | 64,195 | |
| | | | |
| Property and equipment, net | 17,925 | 18,496 | |
| Intangible assets, net | 57,962 | 59,205 | |
| Goodwill | 9,172 | 9,172 | |
| Long-term receivable from related party | 3,969 | 3,478 | |
| Other long-term assets | 9,401 | 9,534 | |
| | \$158,302 | \$164,080 | |
| | | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Current portion of financing obligation | \$1,064 | \$992 | |
| Current portion of bank note payable | 1,250 | 2,500 | |
| Accounts payable | 6,399 | 7,758 | |
| Income taxes payable | 704 | 869 | |
| Accrued liabilities | 17,977 | 24,530 | |
| Total current liabilities | 27,394 | 36,649 | |
| | | | |
| Financing obligation, less current portion | 27,962 | 28,515 | |
| Bank note payable, less current potion | - | 208 | |
| Other liabilities | 1,601 | 1,152 | |
| Deferred income tax liabilities | 6,859 | 7,001 | |
| Total liabilities | 63,816 | 73,525 | |
| | , | | |
| Shareholders' equity: | | | |
| Common stock, \$.05 par value; 40,000 shares authorized, 27,056 shares issued | 1,353 | 1,353 | |

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| Additional paid-in capital | 207,924 | 182,534 |
|--|-----------|-------------|
| Common stock warrants | 111 | 5,260 |
| Retained earnings | 30,599 | 26,110 |
| Accumulated other comprehensive income | 2,471 | 3,410 |
| Treasury stock at cost, 10,816 shares and 9,365 shares | (147,972 |) (128,112) |
| Total shareholders' equity | 94,486 | 90,555 |
| | \$158,302 | \$164,080 |

See notes to condensed consolidated financial statements.

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FRANKLIN COVEY CO.

CONDENSED CONSOLIDATED INCOME STATEMENTS AND STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share amounts)

| | Quart | Quarter Ended February | | arters Ended February |
|--|----------|---------------------------|---------------|--------------------------|
| | March 2, | • | | • |
| | 2013 | 2012 | March 2, 2013 | 2012 |
| | | audited) | | audited) |
| Net sales: | ~ | , | × × | , |
| Training and consulting services | \$37,744 | \$35,606 | \$78,807 | \$71,988 |
| Products | 1,624 | 2,303 | 3,567 | 4,766 |
| Leasing | 1,062 | 718 | 2,117 | 1,413 |
| | 40,430 | 38,627 | 84,491 | 78,167 |
| Cost of sales: | | | | |
| Training and consulting services | 11,939 | 11,973 | 25,528 | 23,832 |
| Products | 746 | 1,247 | 1,171 | 1,982 |
| Leasing | 461 | 426 | 949 | 830 |
| | 13,146 | 13,646 | 27,648 | 26,644 |
| Gross profit | 27,284 | 24,981 | 56,843 | 51,523 |
| | | | | |
| Selling, general, and administrative | 22,691 | 20,714 | 45,634 | 42,087 |
| Depreciation | 722 | 860 | 1,423 | 1,694 |
| Amortization | 619 | 626 | 1,241 | 1,256 |
| Income from operations | 3,252 | 2,781 | 8,545 | 6,486 |
| | | | | |
| Interest income | 150 | 4 | 288 | 7 |
| Interest expense | (598 |) (626 |) (1,188 |) (1,260 |
| Discount on related party receivable | (135 |) - | (283 |) - |
| Income before income taxes | 2,669 | 2,159 | 7,362 | 5,233 |
| Provision for income taxes | (1,077 |) (997 |) (2,873 |) (2,409 |
| Net income | \$1,592 | \$1,162 | \$4,489 | \$2,824 |
| | | | | |
| Net income per share: | | | | |
| Basic | \$0.09 | \$0.07 | \$0.24 | \$0.16 |
| Diluted | 0.08 | 0.06 | 0.23 | 0.16 |
| | | | | |
| Weighted average number of common shares: | | | | |
| Basic | 18,550 | 17,764 | 18,356 | 17,748 |
| Diluted | 19,709 | 18,287 | 19,493 | 18,142 |
| | | | | |
| | | | | |
| COMPREHENSIVE INCOME | | | | |
| Net income | \$1,592 | \$1,162 | \$4,489 | \$2,824 |
| Foreign currency translation adjustments, net of tax | (681 |) (131 |) (939 |) (307 |

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|---|--|-------|---------|---------|---------|
| Comprehensive income | | \$911 | \$1,031 | \$3,550 | \$2,517 |

See notes to condensed consolidated financial statements.

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FRANKLIN COVEY CO.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands)

| March 2,25,20132012(unaudited)CASH FLOWS FROM OPERATING ACTIVITIESNet income\$4,489Adjustments to reconcile net income to net cash providedby operating activities:Depreciation and amortization2,6682,982Share-based compensation cost1,4454,4522,245Amortization of capitalized curriculum costs958902Deferred income taxes(138)1,056Loss on disposals of property and equipment-18Changes in assets and liabilities:Decrease in accounts receivable, net5,9764,847Decrease in inventories204204390Decrease in prepaid expenses and other assets(g86)(681)Decrease in accounts payable and accrued liabilities(Increase (decrease) in income taxes payable(97)119Increase (decrease) in other long-term liabilities494(8)Net cash provided by operating activities10,1799,178CASH FLOWS FROM INVESTING ACTIVITIESPurchases of property and equipment(1,667)Net cash used for investing activities2042,680(1,061)(1,667)Net cash used for investing activities205Proceeds from line of credit borrowings-8,523Payments on line of credit borrowings-8,523Principal payments on financing | | Two Quarters Ended February | | | y |
|---|--|--------------------------------|--------|-------|---|
| (unaudited)CASH FLOWS FROM OPERATING ACTIVITIESNet income\$4,489\$2,824Adjustments to reconcile net income to net cash providedby operating activities:Depreciation and amortization2,6682,982Share-based compensation cost1,4452,245Amortization of capitalized curriculum costs958902Deferred income taxes(138<) | | March 2, | | | |
| CASH FLOWS FROM OPERATING ACTIVITIESNet income\$4,489\$2,824Adjustments to reconcile net income to net cash provided5by operating activities:2Depreciation and amortization2,6682,982Share-based compensation cost1,4452,245Amortization of capitalized curriculum costs958902Deferred income taxes(138)1,056Loss on disposals of property and equipment-18Changes in assets and liabilities:-18Decrease in accounts receivable, net5,9764,847Decrease in inventories204390Decrease in inventories204390Decrease in incentories204390Decrease in incentories(7,323)(5,831)Increase (decrease) in income taxes payable(97)119Increase (decrease) in other long-term liabilities494(8)Net cash provided by operating activities10,1799,178CASH FLOWS FROM INVESTING ACTIVITIESPurchases of property and equipment(1,432)(1,013)CASH FLOWS FROM FINANCING ACTIVITIESProceeds from line of credit borrowings-8,523Payments on line of credit borrowings-8,523Principal payments on notes payable financing(1,458)(1,042)Principal payments on financing obligation(506)(443)Proceeds from sales of common stock warrants86- | | 2013 | | 2012 | |
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| Deferred income taxes(138)1.056Loss on disposals of property and equipment-18Changes in assets and liabilities:-18Decrease in accounts receivable, net5.9764.847Decrease in inventories204390Decrease in receivable from related party2.489315Increase in prepaid expenses and other assets(986)(681)Decrease in accounts payable and accrued liabilities(7,323)(5,831)Increase (decrease) in income taxes payable(97)119Increase (decrease) in other long-term liabilities494(8)Net cash provided by operating activities10,1799,178CASH FLOWS FROM INVESTING ACTIVITIESPurchases of property and equipment(1,432)(1,013)Curriculum development costs(1,061)(1,667)Net cash used for investing activities-8,523Payments on line of credit borrowings-Proceeds from line of credit borrowings-8,523Payments on line of credit borrowings-(1,458)(1,042)Principal payments on financing obligation(506)(443))Purchases of common stock held in treasury201205Proceeds from sales of common stock warrants86- | Share-based compensation cost | 1,445 | 2 | 2,245 | |
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| Increase (decrease) in income taxes payable(97)119Increase (decrease) in other long-term liabilities494(8)Net cash provided by operating activities10,1799,178CASH FLOWS FROM INVESTING ACTIVITIESPurchases of property and equipment(1,432)(1,013Curriculum development costs(1,061)(1,667Net cash used for investing activities(2,493)(2,680Proceeds from line of credit borrowings-8,523Payments on line of credit borrowings-(8,523Principal payments on notes payable financing(1,458)Purchases of common stock for treasury(1,217)Proceeds from sales of common stock held in treasury201205Proceeds from exercise of common stock warrants86- | Increase in prepaid expenses and other assets | (986 |) (| 681 |) |
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| Curriculum development costs(1,061)(1,667)Net cash used for investing activities(2,493)(2,680)CASH FLOWS FROM FINANCING ACTIVITIESProceeds from line of credit borrowings-8,523Payments on line of credit borrowings-(8,523)Principal payments on notes payable financing(1,458)(1,042)Principal payments on financing obligation(506)(443)Purchases of common stock for treasury(1,217)(21)Proceeds from sales of common stock warrants86- | CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Net cash used for investing activities(2,493)(2,680)CASH FLOWS FROM FINANCING ACTIVITIESProceeds from line of credit borrowings-8,523Payments on line of credit borrowings-(8,523)Principal payments on notes payable financing(1,458)(1,042)Principal payments on financing obligation(506)(443)Purchases of common stock for treasury(1,217)(21)Proceeds from sales of common stock held in treasury201205Proceeds from exercise of common stock warrants86- | Purchases of property and equipment | (1,432 |) (| 1,013 |) |
| CASH FLOWS FROM FINANCING ACTIVITIESProceeds from line of credit borrowings-8,523Payments on line of credit borrowings-(8,523)Principal payments on notes payable financing(1,458)(1,042)Principal payments on financing obligation(506)(443)Purchases of common stock for treasury(1,217)(21)Proceeds from sales of common stock held in treasury201 205Proceeds from exercise of common stock warrants86 - | Curriculum development costs | (1,061 |) (| 1,667 |) |
| Proceeds from line of credit borrowings-8,523Payments on line of credit borrowings-(8,523)Principal payments on notes payable financing(1,458)(1,042)Principal payments on financing obligation(506)(443)Purchases of common stock for treasury(1,217)(21)Proceeds from sales of common stock held in treasury201 205Proceeds from exercise of common stock warrants86 - | Net cash used for investing activities | (2,493 |) (| 2,680 |) |
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| Payments on line of credit borrowings-(8,523)Principal payments on notes payable financing(1,458)(1,042)Principal payments on financing obligation(506)(443)Purchases of common stock for treasury(1,217)(21)Proceeds from sales of common stock held in treasury201 205Proceeds from exercise of common stock warrants86 - | CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Principal payments on notes payable financing(1,458(1,042Principal payments on financing obligation(506(443)Purchases of common stock for treasury(1,217)(21)Proceeds from sales of common stock held in treasury201205205Proceeds from exercise of common stock warrants86 | Proceeds from line of credit borrowings | - | 8 | 3,523 | |
| Principal payments on financing obligation(506)(443)Purchases of common stock for treasury(1,217)(21)Proceeds from sales of common stock held in treasury201205Proceeds from exercise of common stock warrants86- | Payments on line of credit borrowings | - | (| 8,523 |) |
| Purchases of common stock for treasury(1,217)(21)Proceeds from sales of common stock held in treasury201205Proceeds from exercise of common stock warrants86- | Principal payments on notes payable financing | (1,458 |) (| 1,042 |) |
| Purchases of common stock for treasury(1,217)(21)Proceeds from sales of common stock held in treasury201205Proceeds from exercise of common stock warrants86- | Principal payments on financing obligation | (506 |) (| (443 |) |
| Proceeds from sales of common stock held in treasury201205Proceeds from exercise of common stock warrants86- | | (1,217 |) (| 21 |) |
| Proceeds from exercise of common stock warrants 86 - | | 201 | 2 | 205 | |
| Net cash used for financing activities (2,894) (1,301 | | 86 | - | | |
| | Net cash used for financing activities | (2,894 |) (| 1,301 | |