

FRANKLIN COVEY CO
Form 10-Q
April 11, 2013

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

FORM 10-Q

(Mark One)

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 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	(Do not check if a smaller reporting company)	<input type="checkbox"/>
		Smaller reporting company	<input type="checkbox"/>

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

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	August 31, 2012
	(unaudited)	
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 portion	-	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.

FRANKLIN COVEY CO.

CONDENSED CONSOLIDATED INCOME STATEMENTS AND STATEMENTS OF COMPREHENSIVE
INCOME

(in thousands, except per share amounts)

	Quarter Ended		Two Quarters Ended	
	March 2,	February	March 2,	February
	2013	2012	2013	2012
	(unaudited)		(unaudited)	
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)

Comprehensive income	\$911	\$1,031	\$3,550	\$2,517
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See notes to condensed consolidated financial statements.

FRANKLIN COVEY CO.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Two Quarters Ended	
	March 2,	February
	2013	2012
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$4,489	\$2,824
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,668	2,982
Share-based compensation cost	1,445	2,245
Amortization of capitalized curriculum costs	958	902
Deferred income taxes	(138)	1,056
Loss on disposals of property and equipment	-	18
Changes in assets and liabilities:		
Decrease in accounts receivable, net	5,976	4,847
Decrease in inventories	204	390
Decrease in receivable from related party	2,489	315
Increase 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)	119
Increase (decrease) in other long-term liabilities	494	(8)
Net cash provided by operating activities	10,179	9,178
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,432)	(1,013)
Curriculum development costs	(1,061)	(1,667)
Net cash used for investing activities	(2,493)	(2,680)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit borrowings	-	8,523
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 treasury	201	205
Proceeds from exercise of common stock warrants	86	-
Net cash used for financing activities	(2,894)	(1,301)