Were the Seven Habits Highly Effective? The Franklin Covey Merger

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This case explores the merger between Franklin Quest and the Covey Leadership Center, along with its aftermath. The objective is to provide students the opportunity to consider the many facets of the merger including the impact of the backgrounds and corporate cultures of the merging parties, the subsequent financial and operating results, and external factors including the economy and competition. This case also provides students the opportunity to sharpen their analytical and research skills as they access the SEC website and EDGAR database as well as other websites that provide economic and industry related information for the answers to specific questions.

An example of how the merging of two separate companies—even in the same industry with perceived complimentary products and services, similar cultures, and optimistic senior executives—can often take years to determine whether the merger was a good decision or not is presented in this case.

After presenting an overview of each of the pre-merger companies, the merged company—with many of its subsequent internal developments—is also presented for analysis. External factors, such as the possible impact of 9/11 as well as economic and other changes since the merger are also presented. The question to be addressed is: Was the Franklin Covey merger successful or not?

This case is appropriate for use in an advanced business policy or strategy class, or management class, in an organizational behavior class, or in a corporate finance or entrepreneurship class. It can also be used as a merger and or merger management case. The case could take from one-half to two hours of class discussion. Students will require three to four hours of preparation time.

Key Words: Merger, Merger Outcomes, Training Industry, Financial Results

Introduction

The 7 Habits of Highly Effective People, by Stephen R. Covey has now sold over 15 million copies. Through Covey's business, the Covey Leadership Center, this widely acclaimed book has formed the nucleus of thousands of training seminars on effective leadership and management principles in organizations throughout the world.

Businessman Hyrum W. Smith founded the Franklin Institute in 1983. Later renamed Franklin Quest, Smith aggressively developed the business into becoming a market leader of quality time management products and related training. By 1996, Franklin had over 5,000 institutional clients and had trained 1.7 million individuals in the use of its Franklin Day Planner System over the previous five years.

In 1997, Covey's company, the privately held Covey Leadership Center, was merged with Franklin Quest, a publicly traded company, to form Franklin Covey Company. After the merger the new company described itself, "as the global leader in effectiveness training, productivity tools, and assessment services for organizations, teams and individuals. Their objective was to help companies succeed by unleashing the power of their workforce to focus and execute on top business priorities." (www.franklincovey.com.)

In the beginning most assumed the merger would be a great success since both companies were widely recognized as experts in the field of management efficiency and leadership. Annual sales for the combined company were just over $400 million, and by 2000 totaled $585 million. In spite of initial high hopes for the merger, mounting losses, large scale layoffs and significant difficulty in effectively combining the two work forces soon became apparent. Total assets declined by over 60% from the time of the merger to the end of fiscal 2004. For the same period, cumulative losses totaled over $180 million, and total number of employees declined by over 71%. While the price of Franklin Quest's stock ranged from $22 to $40 during the first two years it went public, its price had moderated to a range of $17 to $29 over the next two years which preceded the merger. The price of the post-merger Franklin Covey common stock ranged from a high of $29 per share during 1997 to a $1 to $3 per share range in calendar 2004.

Observers wondered just how effective the 7 habits really were! Could it be that those who taught the seminars on effective leadership and management were somehow not very effective in leading their own company? One might wonder if the problems experienced by the combined Franklin Covey Company were primarily due to the tragedy of September 11, 2001 and its economic aftermath (Galvin, 2002). Therefore the merger of the two companies was a good idea initially, and it continues to be sound today.

Covey Leadership Center – Before the 1997 Merger

Background

In 1980, Stephen R. Covey—a BYU business professor, author and consultant located in Provo, Utah—founded a management development and consulting business. Over the next several years the fledgling organization, operating as Stephen R. Covey and Associates, grew steadily and attracted several experienced consultants and training facilitators to its staff. Working together as a team, Stephen and his senior consultant/facilitators in due time were able to successfully develop strong relationships with senior corporate managers in such organizations as Procter and Gamble, Saturn Corporation, Ritz Carlton Hotels, Anderson Consulting, and Marriott Management Services.

1989 was a watershed year for the Covey organization. To better represent its expanding range of services, the company changed its name to the Covey Leadership Center. More importantly, however, was the publishing of Covey's book, *The 7 Habits of Highly Effective People*. Not long after its publication, "7 Habits" rose to become Number One on the New York Times bestseller list and was subsequently listed on Publishers Weekly's top seller list for an astounding 339 weeks (Maryles, 2004). From the date of the launch of this book, Covey's personal life—as well as the life of the Covey Leadership Center—was never the same.

During the 1990's, articles about Covey and his "7 Habits" book were featured in such publications as *Business Week, Fortune, Inc., Forbes, The Wall Street Journal, The New York Times, USA Today,* and *The London Times*. Covey was a guest on the Oprah Winfrey show and was twice invited to counsel with President Clinton, once at Camp David and once at the White House. In a 1999 survey by *Chief Executive Magazine*, 7 Habits was chosen as the most influential book of the 20th Century. *Time* magazine, in 1996, named Covey one of the 25 most influential Americans. If the popular business press identified "rock stars" of management gurus, former college professor Stephen R. Covey would be a leading candidate for the title.

By the August 31, 1996 fiscal year end—16 years since it's founding—the client list of Covey Leadership Center included 82 of the Fortune 100 companies and over 300 of the Fortune 500 companies in addition to numerous governmental agencies and educational institutions.

Management

From the company's beginning, Covey, as the major stockholder of the sub-chapter S corporation, served as Chairman of the Board. By choice, he delegated the day-to-day management of the organization to others thus freeing up his time to focus on high-profile speaking engagements; on relationship development with corporate executives, opinion leaders, and news sources; and to research and write.

The Board of Directors consisted of four members, with two being non-officers of the company. Management decisions were primarily made by a relatively small headquarters staff which included representation from the company's senior consultants. In 1989, Stephen M. R. Covey, son of Stephen R., joined the company and served in various roles over the next few years. In 1994 he was appointed President and remained in that position until the 1997 merger with Franklin. John Covey, brother of Stephen R., also served as a Vice President of the company for several years.

Products and Services

By 1996, Covey Leadership Center described itself as, "a provider of integrated educational materials, training workshops, consulting services, publications and products designed to empower individuals and organizations to become more effective through understanding and applying principles that the company believes are universal" (SEC, 1997, p. 22).

Covey's teaching and training concepts were principle-based and focused on increasing individual and organizational effectiveness. In speaking engagements and in his writings, Covey consistently emphasized that the understanding and personal application of core, principle-based ideas and skills were necessary for deep, long-lasting change in people and in organizations.

The Covey core flagship seminar was its week-long 7 Habits training course which was generally conducted at the Robert Redford Sundance Resort located near Provo, Utah. Subsequently, an additional seminar for training and certifying human resource specialists from client organizations was developed. Successful completion of this course authorized new certified trainers to deliver the Covey programs within their organizations using the high quality, Covey-developed materials and presentation aids in addition to receiving coaching assistance from company representatives as needed. From 1989 to 1996, over 7,000 client facilitators were certified resulting in a significant expansion of Covey teachings throughout a great number of organizations (SEC, 1997, p. 68).

After the highly successful performance of the 7 Habits book, two others were published; *Principle-Centered Leadership* in 1992 and *First Things First* in 1994, with Covey being the author and co-author, respectively. Both subsequently became bestsellers and custom workshops for each were developed and added to the Covey training offerings. (SEC, 1997, p. 49.) The importance of training to the company is noted by the fact that training revenues accounted for approximately 85% of total revenues for several years prior to the 1997 merger.

As part of the Covey seminars, each participant received a personal "7 Habits Organizer" which was a compact paper and ring binder system with many calendaring features similar to the Franklin Day Planner promoted by Franklin Quest. However, in addition to time management materials, the Covey organizer incorporated many of the principle-centered concepts from *The 7 Habits of Highly Effective People*. Covey's "First Things First" management concept, identified as habit number three of the seven, was central to the system. The organizer was designed to emphasize longer-term planning based on an individual's primary values and goals (versus daily time management) and was constructed to be supportive of the user's personal mission statement. The combination of these features resulted in an impressive organizing tool which the Covey people characterized as a "third generation" planning tool. This was to competitively contrast its product to the Franklin Day Planner which the Franklin people often identified as a "second generation" type Day Timer.
In addition to the 7 Habits Organizer, with a variety of ring binders from vinyl to premium leather, other Covey products included audio, video, and CD-ROM training materials, workbooks, and business-related accessories. In the years prior to the 1997 merger, total product sales accounted for only 15 % of total Covey revenues.

Financials and Summary

Since Covey was a privately held company, financial data prior to 1992 is not available. Financials for 1992-1996, however, are available in the *SEC Franklin Covey DEFS14A - Definitive Proxy Statement for Special Meeting, dated* April 30, 1997, on page 9. To summarize, 1992 sales and pretax profits were nearly $30 million and $1.7 million, respectively. By 1994, sales had more than doubled to $69 million and pretax earnings had increased 48% to $2.6 million. Growth during 1995 and 1996 was particularly strong. For 1996, Covey's last year as a private company before its merger, sales totaled nearly $99 million and pretax earnings were slightly over $9.5 million. It ended its years with 582 employees and 3 retail stores.

As the financial data indicates, annual training revenue—at about 85% of the total—shows that the Covey organization was primarily a service-oriented training and consulting company, not a product-oriented business. Rather than being individuals at all levels within various organizations, Covey's target customers were primarily Fortune 100 and Fortune 500 companies and their mid to senior level managers.

Franklin Quest CO. – Before the 1997 Merger

Company Background

Franklin Quest Co., originally named Franklin Institute, was founded in 1983 by entrepreneur Hyrum W. Smith in the basement of his Utah home. Smith, along with his early associates, developed and marketed a paper-based, comprehensive time management system which they named the Franklin Day Planner. The Franklin name was attributed to American patriot, Benjamin Franklin, who developed a personal record keeping book to assist him in his self-development process. Similarly, the purpose of the modern Franklin Day Planner was to assist individuals in better managing their time by helping clarify goals and prioritizing tasks which, when implemented, should result in increased productivity. The company developed an impressive supportive training seminar to accompany the Franklin Day Planner system. Both were aggressively marketed to business, government, and other organizations, as well as to the general public, and were positively received.

Although Hyrum W. Smith was the company's star trainer, over time other experienced presenters were also recruited. Once trained on the Franklin system, these presenters—teamed with aggressive account manager/new business developers—were able to develop strong growth in the personal productivity marketplace.

Management

Early on, Smith assembled an experienced, highly motivated, and professional management team and company sales and profits grew rapidly. The board, consisting of eleven members, was primarily made up of outside professionals from throughout the country. Robert Bennett, now a United States Senator from Utah, was the President of the firm from 1984 until January 1991 when he began his campaign for the United States Senate which he won in 1992. Arlen B. Crouch, a First Vice President and Regional Director of Merrill Lynch & Co., Inc., with responsibilities for retail operations in the Southern California region, was hired by Smith in 1989 as Executive Vice President of Franklin. Crouch became President and Chief Operating Officer of Franklin after Bennett's resignation. In retrospect, it appears one of Crouch's main executive tasks, due to his extensive investment banking background, was to prepare the company for its initial public offering (IPO) which took place in June of 1992. Crouch retired from the company in 1997, just prior to the finalization of the merger with Covey Leadership Center.

Products and Services

Until the emergence of handheld PalmPilots and other similar personal data assistant (PDA) devices, Franklin's primary products were paper-based day planners and the accompanying binders which held the system together. In addition to daily, monthly, and annual calendars, various other planning aids and schedules were included. Annually it became necessary for the yearly calendar portion of the planner to be updated. When comparing its time management system to those offered by competitors, it was not unusual for Franklin employees to refer to the Franklin Planner as a "value-based, second generation" planning tool.

Franklin offered a wide assortment and price range of ring binders with a variety of covers ranging from vinyl, simulated leather and tapestry to premium leather. In 1991 the company introduced a software version of a complete Personal Information Management (PIM) system for desk and laptop use. The program could be used to augment the Franklin paper-based system, or as a stand alone system. In 1996, Franklin added Palm Computing's line of PalmPilots as well as other similar PDA devices to their product offerings along with a variety of books, calculators, writing instruments, etc. For the fiscal year ending August 31, 1996 product sales at $261.2 million accounted for 71% of total company sales.

Training and Services for the same period, at $96 million, accounted for the remaining 29% of Franklin's total sales. Franklin's training consultants had solid training experience and excellent presentation skills and conducted seminars for employees of client organizations as well as seminars open to the public. Organizations could contract to have their own HR staff members trained and licensed by Franklin in a train-the-trainer program. This allowed the organization to conduct Franklin training in-house, at its own convenience. Whether an individual was trained by a Franklin trainer or by a licensed in-house trainer, as part of the training each attendee received a basic Franklin Day Planner system along with additional training materials.

By December 31, 1996, Franklin employed over 145 account executives. Half were centralized at headquarters and half lived in geographic sales territories throughout the U.S. These individuals provided local service to existing customers in addition to developing new business in their respective areas. Franklin's use of public seminars in larger population markets throughout the U.S. proved to be an effective marketing strategy. Training directors of organizations located in the area were typically invited to attend and preview the seminar prior to committing their staff and/or employees for Franklin training. For 1996, Franklin presented 4,320 seminars (SEC, 1996).

Franklin was willing to customize its forms, binders, and training materials for large clients and for specific applications for use by real estate professionals, government employees, salespersons, etc. Attractive, full-color catalogs were printed and periodically mailed to customers throughout the year. In addition, Franklin provided a customer service department with toll-free telephone access, 24 hours a day, Monday through Saturday.

In late 1985, starting in geographic areas where a high density of existing Franklin customers were located, the company began opening retail stores. During the five fiscal years preceding the 1997 merger, the number of Franklin stores expanded from 19 to 90. By late February, 1997, just before the merger, there were 95 Franklin retail stores located in 35 states and the District of Columbia.

Financials and Summary

By 1992—the year of its IPO—Franklin's annual revenues had grown to $120.8 million. Pretax and net after tax earnings were $16.6 million. Over the next four years, revenues and earnings more than doubled. By fiscal year end 1996, revenues were $332 million. Pre-tax earning were $58.2 million. Franklin employees numbered 3,064 at fiscal year end.

As a review of the financials indicates product revenues for the five years ending August 31, 1996, averaged 74% of total revenues, thus Franklin was primarily a product company rather than a training and services company (SEC, 1997, p. 6). While Franklin trained thousands of individuals within various companies and organizations at the operational levels, each attendee received a Franklin Day Planner system resulting in a product sale. Franklin also made a direct effort to sell their products to a broad spectrum of people through their expanding retail store network. Thus product sales consisted of the initial sales of planners, as part of a training seminar or through their retail stores or catalog, with their initial one year supply of calendaring materials. These sales were then followed up with repeat sales of new calendaring materials on an annual basis plus the periodic sale of upgraded binders, additional accessories, etc. to many of the initial users. The successful business model of companies that sell razors, followed up by ongoing, repeat sales of blades—in addition to the sale of periodic razor upgrades—is applicable to Franklin.

The Franklin Covey Merger

An informal discussion relating to the possibility of a merger between Franklin Quest and Covey Leadership Center took place in June, 1996. Those involved were Franklin's Board Chairman and CEO, Hyrum W. Smith, and President, Arlen B. Crouch and Covey's Board Chairman, Stephen R. Covey, and his son, Stephen M. R. Covey, President. Throughout the next several months further informal discussions were held. In addition each company independently sought merger-related investment and legal advice. (SEC, 1997, pp. 21-22). In late January, 1997, each of the board of directors—in separate meetings—voted unanimously in favor of the merger (SEC, 1997, p. 25). The intent to merge was publicly announced on January 22, 1997.

It is interesting to note that both the pre-merger Franklin and Covey organizations had similar Utah roots; their founders were from well-known Utah Mormon pioneer families. In addition to Smith and Covey, many of their top management personnel were also members of the Mormon Church, likely due to the Utah-based locations of each of their company headquarters. It might be anticipated that such high commonality in values, experiences, culture, and world-view would result in a smoother-than-normal transition in combining two organizations.

Others might also argue such commonality has little actual effect on management practices and thus would be anticipated to make little, if any, difference in the smoothness of such business mergers. Regardless of commonalities, prior to the Franklin-Covey merger the two companies had been fierce competitors. This was particularly the case with the Franklin Day Planner and the Covey 7 Habits Organizer products. One Salt Lake City observer likened the two companies to the Coke and Pepsi of Utah (Kratz, 1998).

This inter-company rivalry was addressed by President and CEO, Stephen M. R. Covey in a speech to local Provo, Utah Chamber of Commerce members a few weeks after the merger announcement. Referring to the merger news, Covey remarked:

> We were constantly fighting with Franklin Quest around the world. They are a formidable competitor, particularly in time management. It's been exciting and challenging . . . (In our discussions last summer). . . we were convinced there were enormous complimentary strengths that created a real synergy worth considering. For years we've been competing, and the competition has intensified. . . . the merger with Franklin will put (Covey Leadership Center) where it wants to be overnight instead of looking at a five-to seven-year plan. We got access to capital (and) Franklin has tremendous distribution capabilities and a tremendous infrastructure. . . .It's an exciting merger, but there are some questions we still can't answer (Pugmire, 1997).

The reporter rather astutely observed that . . . "while Covey needed help with their catalog and retail, Franklin needed more content and products for senior management appeal, which is what Covey has an abundance of" (Pugmire, 1997).

The merger was officially consummated on April 2, 1997. Leadership for the new company included Smith as the Chairman of the Board of Directors and Chief Executive Officer; Stephen R. Covey as Co-Chairman of the Board of Directors; Jon H. Rowberry, former President and Chief Operating Officer of Franklin Quest, as President, Chief Operating Officer and member of the Board; and Stephen M. R. Covey, former President and Chief Executive Officer of Covey Leadership Center, as Executive Vice President, Marketing and Innovation, and member of the Board. The Board of Directors consisted of fifteen individuals; five from the former Covey board and ten of the former Franklin board which had numbered twelve. Of the new fifteen-member Board four were executives of the new company; the other eleven were outside directors.

Like many marriages, after the honeymoon is over, it may take a while for the relationship to hit its stride. A year after the merger, Jon H. Rowberry, Franklin Covey President and COO, stated, "We've taken our time. We've involved a large number of people (and) we are pretty much where we hoped to be. The only problem . . . is that it took about twice as long as expected to get there" (Kratz, 1998). Chairman and CEO, Hyrum Smith, followed up this comment by stating that, "My perception is we're stronger than we've ever been. I think we finally are one company now" (Kratz, 1998).

D. Gordon Wilson, Franklin Covey executive vice president of sales, added:

> Part of the problem with the transition may have resulted from the nature of the Companies. Franklin Quest, famous for its planners, and Covey Leadership, famous for its seminars; both staked their reputations on helping business people stay organized and efficient. I think it

was especially difficult because we teach this stuff. It put extra pressure on us to really practice what we preach (Kratz, 1998).

In December, 1998, *USA TODAY* carried a cover story about Franklin Covey with the headline "Gurus: Do as I say, Not as I Do – Consultants learn tough merger lesson". The article described the company as a . . . "floundering organization that is a textbook example of a merger gone awry" (Strauss, 1998).

Various reasons and explanations were put forth. In the article a Salomon Smith Barney investment analyst who followed the stock stated, "Their problem was an inability to execute internally, which goes to the heart of what they allegedly teach" (Strauss, 1998). And Jack Gordon, editor of *Training* magazine, observed that . . . "the major differences in existing company cultures probably thwarted efforts" (Strauss, 1998).

Franklin Covey executives also voiced their opinions. Chairman Hyrum Smith indicated that . . . "(the company) was now showing signs of hitting its stride. There's never been a them-us feeling at the top level of management. But in the trenches, it's taking some time for some to say those Covey folks really are good guys" (Strauss, 1998).

Greg Link, head of Franklin Covey business development (and former Covey Leadership Center senior executive) stated in the article . . . "with the great intellectual property we'd been providing clients to help them merge cultures, you'd think we'd be able to do it better than anyone. The stark reality is mergers are tough. It takes people time to adapt" (Strauss, 1998).

Other issues such as overlapping jobs, incompatible computer and database systems, and time management products which resulted in clashes by their respective champions were cited in the article. Also, the compensation systems within the two merged companies for their respective sales and account executive people were significantly different.

In spite of these challenges, Stephen R. Covey stated that . . . "the merger has been harder and has taken longer than we imagined. It's been one tough baby. . .(nevertheless). . . the very process of doing (the merger) has taught me a lot. I'd (merge) 100 times again. This isn't jive. I'm not just saying this to sound good. Over the long term, I'm confident this thing will work" (Strauss, 1998).

Financial Record Since the Merger

Tables A and B at the end contain the consolidated financial statements for Franklin Covey covering the period since the merger. These statements are available in greater detail from the annual 10-K reports filed with the Securities and Exchange Commission (SEC), and are available on the SEC website in the EDGAR database at: www.sec.gov.

As can be seen, total sales for Franklin Covey increased by more than $100 million in 1998, the second year after the merger, and $31 million in 2000. In 2001, total sales began a significant decline; $60 million that year and over $192 million in 2002.

Total equity for Franklin Covey was $355.4 million in 1997. By 2004, total equity had fallen to $166.6 million, a drop of $189 million. Total assets for Franklin Covey were $572.2 million in 1997. By 2004 total assets had declined to $225.7 million, a drop of 60.5%.

During this period long-term liabilities reached a high in 1998 of just over $126 million. By 2004 long-term liabilities were just under $3 million. From 1999 through 2004, Franklin Covey sustained a cumulative net loss of $180.25 million.

Franklin Covey's common stock traded in the $17 to $29 range during the first year of the merger. Since then it declined each year, finally hitting a low point during 2003, trading at $0.65 a share. At that point there were indications that the New York Stock Exchange was considering action to remove Franklin Covey's stock from trading on that exchange, due to the price dropping below $1 per share. During 2004 the stock price strengthened somewhat, trading in the $1 to $3 range and by mid-summer, 2005 the stock had rallied to the $6 - $8 area.

From 1997 through 2004 the total number of employees at Franklin Covey declined from 4,714 to 1,349, a decrease of over 71%.

External Factors – The Economy and Competition

There are many factors external to a company's operations over which management has little or no control. Major ones include the status of the economy in which the firm is operating, the presence and actions of competitors within the company's industry, and unplanned disasters. Any one of these or a combination of them can have short or long-term positive or negative effects on a firm, depending on the circumstances. Thus management must remain alert to indicators of possible changes in the overall economy, be ever vigilant as to competitive changes taking place in the market place, and try to have contingency plans for possible emergencies or disasters.

Economic indicators including GDP, unemployment, inflation, and consumer spending were very positive at the time of the Franklin Covey merger in early 1997. The economy was in its sixth year of growth since the mild recession of 1990/1991. The stock market was booming; the Dow having moved from around 3,000 in 1991 to the 7,000 area in early 1997 and to around 8,000 by the end of the year. Strong economic growth continued into 2000 with the Dow reaching its all-time record high of nearly 12,000 in January.

In 1997, the industry in which Franklin Covey operated in was identified as the organizational training industry and was highly fragmented. Franklin Covey estimated that 1997 revenues for the industry were greater than $6 billion with the largest "traditional firms" having sales in the $100 million range. The Company believed that it was . . . "a leading competitor in the organizational training market" (SEC, 1997, p. 7). It identified Development Dimensions International, Zenger Miller, Organizational Dynamics, Inc. and the Center for Creative Leadership as its major competitors in the leadership training market.

A disaster of the intensity of the September 11, 2001 attack caught Franklin Covey and every other organizations and individual in the U.S. totally off guard (Galvin, 2002). Management was unsure as to the longer term effect that the 9/11 tragedy would have on its business.

Aftermath of the Merger

Through the end of fiscal year 2004, based upon financial performance, it is obvious the merger has not yet been a financial success. An analysis of why this has transpired is the underlying thrust of this case in addition to determining what the operating results have been since the end of fiscal 2004. If the past is a prologue to the future, the next important question to ponder is what is the future for Franklin Covey Company.

Recommendations for Teaching Approach

Most business students will likely be somewhat familiar with or have at least heard about Stephen R. Covey's book, *The 7 Habits of Highly Effective People.* Some students may also have been, or are still, users of the popular *Franklin Day Planner* time management tool, now called the *FranklinCovey Planner.* In either case, those that have some familiarity with either of the products will likely bring a higher degree of curiosity or interest to their involvement with this case. Students should be encouraged to read the case, visit the Franklin Covey website at www.franklincovey.com, access the SEC's EDGAR database at www.sec.com to obtain additional information about the company, and to use other web-based resources to gather information on economic, stock market and industry information related to the 1997 to present-day time frame addressed in the case and its accompanying questions.

Suggested Case Questions for Student Analysis

Questions one through four have a business strategy, finance, and or accounting focus. Questions five through seven have a merger or merger management focus.

1. Why do you think total sales have declined so sharply since the peak in 2000? Were there any external factors such as the economy, competition, or other areas that contributed to the decline? What evidence can you provide for your opinion?

2. Total equity on the Franklin Covey balance sheets fell almost $189 million from 1997 to 2004, and total assets fell by 60.5% over the same period. What contributed to the declines? Be as specific as you can.

3. Using financial ratio analysis, comment on the financial health of this company from 1997-2004, in each of the areas of liquidity, asset activity, leverage, and profitability. What is your overall financial evaluation of this company?

4. By now you likely realize that Franklin Covey's fiscal year end is August 31 and that the financial information presented in this case ends with the 2004 fiscal year. Locate and review the company's quarterly and annual financial performance since fiscal year end 2004. Summarize how its results have changed and identify the reasons why.

5. At the time of the merger, how did the two companies compare to one another in annual total revenues, training and product revenues, pretax earnings, number of employees, and number of retail stores. What insights does this brief information give you regarding the merger?

6. Analyze this merger from each company's point of view regarding management culture, sales, and customers.

7. What observations can be made regarding the Franklin Covey merger? Was the merger a good idea? Why or why not?

Note: A set of instructor materials has been prepared for those wishing to use this case in the classroom. A copy may be obtained by e-mailing Professor Charles Cozzens (cozzench@uvsc.edu).

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TABLE A
FRANKLIN COVEY - INCOME STATEMENT, 1997 – 2004

INCOME STATEMENT	1997	1998	1999	2000	2001	2002	2003	2004
(Thousands except per share data which is in dollars.)								
Product Revenue	$325,855	$343,832	*	*	*	$221,641	$202,225	$177,184
Training Revenues	107,417	202,780	*	*	*	111,357	104,935	98,250
Total Sales	$433,272	$546,612	$554,923	$585,199	$525,333	$332,998	$307,160	$275,434
Cost of Products	$144,319	$148,212	*	*	*	$110,791	$103,144	$86,464
Cost of Training	31,283	65,676	*	*	*	38,578	34,457	33,830
Total Cost of Sales	$175,602	$213,888	$243,132	$254,208	$226,760	$149,369	$137,601	$120,294
Gross Margin	257,670	332,724	311,791	330,991	298,573	183,629	169,559	155,140
Sell., Gen. & Admin.	164,057	221,303	235,003	280,530	259,987	268,193	186,443	148,257
Dep'n. & Amort.	20,800	33,028	39,539	45,167	45,879	38,009	30,781	15,947
Non-Operating Costs	5,450	0	32,841	-4,946	0	0	0	0
Income from Ops	$67,363	$78,393	$4,408	$10,240	-$7,293	-$122,573	-$47,665	-$9,064
Other Income	-1,000	-8,442	-8,634	-4,687	-3,523	-3,725	-125	263
Income Taxes	27,498	29,893	4,546	9,962	267	-25,713	-2,537	-1,349
Net Income	$38,865	$40,058	-$8,772	-$4,409	-$11,083	-$100,585	-$45,253	-$10,150
Earnings Per Share	$1.76	$1.66	-$0.51	-$0.61	-$0.95	-$5.49	-$2.69	-$0.96
Common Stock Price Range	29 - 17	28 – 19	20 - 8	11 - 7	10 - 4	7- 3	2 - 1	3 - 1
Number of Employees	4,714	4,247	4,165	3,988	3,247	2,081	1,425	1,349

* Not reported.

TABLE B
FRANKLIN COVEY - BALANCE SHEET, 1997 – 2004

BALANCE SHEET	1997	1998	1999	2000	2001	2002	2003	2004
(Thousands)								
Cash	$20,389	$27,760	$26,781	$21,242	$14,864	$47,049	$41,916	$41,904
Accounts Receivable	71,840	83,621	92,500	84,747	78,827	21,117	20,450	18,636
Inventory	55,748	47,799	59,780	53,599	45,173	39,091	36,805	23,693
Income Taxes Receivable	6,094	0	3,912	12,916	10,182	0	0	0
Other Assets	15,672	16,113	28,673	20,531	16,631	13,482	8,178	5,794
Current Assets	$169,743	$175,293	$211,646	$193,035	$165,677	$120,739	$107,349	$90,027
Property and Equipment	$119,768	$127,268	$127,863	$121,556	$104,876	$75,928	$49,972	$40,584
Goodwill and Intangibles	269,219	270,202	267,185	258,475	225,805	95,955	91,645	87,507
Other Assets	13,457	24,514	16,609	19,413	38,711	12,116	10,775	7,593
Total Assets	$572,187	$597,277	$623,303	$592,479	$535,069	$304,738	$259,741	$225,711
Current Liabilities	$86,903	$93,353	$203,508	$119,697	$101,074	$66,880	$68,825	$56,199
Deferred Income Taxes	35,735	35,857	34,818	32,939	30,842	0	0	0
Long Term Liabilities	94,144	126,413	6,543	65,790	93,271	3,303	5,116	2,900
Total Liabilities	$216,782	$255,623	$244,869	$218,426	$225,187	$70,183	$73,941	$59,099
Preferred Stock	0	0	$75,000	$80,967	$82,995	$87,203	$87,203	$87,203
Common Stock at Par	$1,353	$1,353	1,353	1,353	1,353	1,353	1,353	1,353
Additional Paid in Capital	239,699	238,052	235,632	225,748	223,898	222,953	221,968	205,585
Retained Earnings	114,353	102,249	66,449	65,985	1,636	-76,954	-124,724	-127,529
Total Equity	$355,405	$341,654	$378,434	$374,053	$309,882	$234,555	$185,800	$166,612