Operating Expenses

Selling, general and administrative ("SG&A") costs increased $34.3 million to 46.0 percent of sales compared to 42.4 percent of sales during fiscal 1999. Increased SG&A expenses were primarily due to ongoing development of electronic-based products and services, electronic commerce channels, spending to support expected growth in the Premier business, newly acquired businesses, increased promotional expenses, the addition of 10 new retail stores, and increased consulting costs associated with projects related to the Company's restructuring plan. The increases were partially offset by a decrease in core employee costs as a result of headcount reduction efforts. Throughout fiscal 2000, the Company aggressively invested in the development and marketing of new electronic-based products, on-line training programs, and various application tools. Due to the significant increase in handheld electronic devices and related accessories, the Company increased its customer support services for these products. Additionally, the Company continued to invest in improvements to its electronic commerce infrastructure to meet changing consumer preferences and committed significant resources to the development of its Internet web site and other on-line products and services, such as www.franklincoveyplanner.com. The Company believes that the development of on-line products and services, combined with an efficient e-commerce base will enable it to achieve a competitive advantage in the future by providing a variety of tools in various formats to enable organizations and individuals to craft effective solutions to meet their needs. Premier, which develops and produces planners and other solutions for the educational market, increased its SG&A spending as a result of a new regional office and additional headcount necessary to support expected growth in fiscal 2000 and beyond. The purchases of the Professional Resources Organization and DayTracker.com, which were acquired during fiscal 2000, have also resulted in increased total SG&A expenses compared to the prior year. The Company also increased its promotional spending, primarily for catalogs and direct mailings, to advertise new products and to improve public program sales. As part of the Company's restructuring plan, consultants have been engaged to assist the Company with projects such as improving brand recognition, improving accounts receivable collections, expanding European operations, and other related projects that are designed to position the Company for profitable growth in the future.

Depreciation expense increased by $3.4 million compared to the prior year primarily due to purchases of computer hardware and software, office furniture and fixtures, manufacturing equipment, and the addition of leasehold improvements in new stores and regional sales offices. Amortization charges increased by $2.2 million primarily due to the amortization of goodwill related to contingent earnout payments made to the former owners of Premier and Personal Coaching, and the acquisition of DayTracker.com.

Stock Option Purchase and Relocation Costs

During fiscal 2000, the Company expensed $11.2 million of additional costs primarily to reacquire outstanding stock options and to relocate the majority of its sales associates to new regional offices. In an effort to reduce the potentially dilutive effect of outstanding options on the Company's capital structure, the Company actively sought to reacquire outstanding stock options from both current and former employees. The majority of option purchase costs were incurred in connection with a tender offer made by the Company during its third fiscal quarter to purchase all outstanding options with an exercise price of $12.25 or higher. As a result of the tender offer and previous purchases of option shares, the Company acquired 3,294,476 option shares for a total cost of $8.7 million. The remaining $2.5 million was spent primarily to relocate certain sales associates to new regional offices. At August 31, 2000 all regional sales offices were operating and the Company expects to see increased training sales in future periods from this new strategy. These costs have been included as a separate expense component in the accompanying consolidated statement of income for the fiscal year ended August 31, 2000.

Interest Expense

Interest expense decreased $3.7 million primarily due to lower long-term debt balances during fiscal 2000. Long-term debt decreased due to the retirement of $85.0 million of notes payable during October 1999. The notes payable were retired using existing cash balances and the Company's expanded lines of credit.