SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended February 28, 1998

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF 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 (State of incorporation)	87-0401551 (I.R.S. Employer Identification No.)
2200 West Parkway Boulevard Salt Lake City, Utah (Address of principal executive offices)	84119-2331 (Zip code)
Registrant's telephone number, including area code:	(801) 975-1776

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 X
No

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock as of the latest practicable date:

24,378,500 shares of Common Stock as of March 30, 1998

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

FRANKLIN COVEY CO.

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

	February 28, 1998 (unaudited)	August 31, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 24,026	$ 20,389
Accounts receivable, less allowance for doubtful accounts of $2,545 and $1,931	58,456	71,840
Inventories	52,744	55,748
Income taxes receivable	2,780	6,094
Other current assets	14,957	15,672
Total current assets	152,963	169,743

Property and equipment, net	126,257	119,768
Goodwill and other intangible assets, net	267,344	269,219
Other long-term assets	15,658	13,457
	$ 562,222	$ 572,187
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 15,843	$ 31,611
Accrued acquisition earnouts		9,000
Other current liabilities	41,681	46,292
Total current liabilities	57,524	86,903
Line of credit	86,000	86,000
Deferred income taxes	36,179	35,735
Long-term debt, less current portion	5,313	5,870
Capital lease obligations, less current portion	1,824	2,274
Total liabilities	186,840	216,782
Shareholders' equity:		
Common stock, $0.05 par value, 40,000,000 shares authorized, 27,055,894 shares issued	1,353	1,353
Additional paid-in capital	238,469	239,699
Retained earnings	193,707	169,714
Deferred compensation	(1,169)	(1,495)
Cumulative translation adjustments	(1,380)	(934)
Treasury stock at cost, 2,492,665 and 2,373,223 shares	(55,598)	(52,932)
Total shareholders' equity	375,382	355,405
	$ 562,222	$ 572,187

(See Notes to Consolidated Condensed Financial Statements)

FRANKLIN COVEY CO.

CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(in thousands, except per share data)

	Three Months Ended February 28,		Six Months Ended February 28,	
	1998	1997	1998	1997
	(unaudited)		(unaudited)	
Sales	$ 138,564	$ 105,958	$ 282,483	$ 208,335
Cost of sales	53,496	43,066	110,146	86,341
Gross margin	85,068	62,892	172,337	121,994
Operating expenses	62,500	41,383	125,134	78,764
Income from operations	22,568	21,509	47,203	43,230
Interest and other, net	(1,265)	322	(2,633)	397
Income before income taxes and cumulative effect of accounting change	21,303	21,831	44,570	43,627
Provision for income taxes	8,841	8,787	18,497	17,559
Income before cumulative effect of accounting change	12,462	13,044	26,073	26,068
Cumulative effect of accounting change, net of tax (Note 5)			(2,080)	
Net income	$ 12,462	$ 13,044	$ 23,993	$ 26,068
Income from continuing operations per share				
Basic	$ 0.50	$ 0.66	$ 1.05	$ 1.31
Diluted	0.49	0.63	1.02	1.25
Cumulative effect of accounting change, net of tax, per share				
Basic			(0.08)	
Diluted			(0.08)	
Net income per share				
Basic	$ 0.50	$ 0.66	$ 0.97	$ 1.31
Diluted	$ 0.49	$ 0.63	$ 0.94	$ 1.25
Weighted average number of common and common equivalent shares				
Basic	24,774	19,735	24,769	19,870
Diluted	25,423	20,779	25,480	20,845

(See Notes to Consolidated Condensed Financial Statements)

FRANKLIN COVEY CO.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(in thousands)

	Six Months Ended February 28, 1998	1997
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 23,993	$ 26,068
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,370	9,470
Deferred taxes	444	354
Deferred compensation	326	268
Other changes in assets and liabilities	(3,412)	7,022
Net cash provided by operating activities	38,721	43,182
Cash flows from investing activities:		
Acquisition of businesses (contingent earnout payments in 1998)	(12,221)	(11,960)
Purchases of property and equipment	(16,497)	(5,873)
Net cash used in investing activities	(28,718)	(17,833)
Cash flows from financing activities:		
Payments on short-term borrowings	(952)	(121)
Proceeds from long-term debt		356
Payments on long-term debt and capital leases	(1,070)	(849)
Purchase of treasury shares	(5,819)	(16,016)
Proceeds from treasury stock issuance	1,922	367
Net cash used in financing activities	(5,919)	(16,263)
Effect of foreign exchange rates	(447)	(544)
Net increase in cash and cash equivalents	3,637	8,542
Cash and cash equivalents at beginning of period	20,389	24,041
Cash and cash equivalents at end of period	$ 24,026	$ 32,583
Supplemental disclosure of cash flow information:		
Interest paid	$ 3,477	$ 283
Income taxes paid	13,890	15,787
Fair value of assets acquired	$ 12,221	$ 13,770
Cash paid for net assets	(12,221)	(11,960)
Liabilities assumed from acquisitions	$ -0-	$ 1,810

(See Notes to Consolidated Condensed Financial Statements)

FRANKLIN COVEY CO.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 - BASIS OF PRESENTATION

Effective June 2, 1997, Franklin Quest Co. merged (the "Merger") with the Covey Leadership Center ("Covey") to form Franklin Covey Co. (the "Company"). Accordingly, the accompanying consolidated condensed Statements of Income for the three and six months ended February 28, 1997 and the Statement of Cash Flows for the six months ended February 28, 1997 do not include the financial position or results of operations of Covey. Pro forma information related to the Merger is presented in Note 4 to these financial statements.

The attached unaudited consolidated condensed financial statements reflect, in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position and results of operations of the Company as of the dates and for the periods indicated.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the Securities and Exchange Commission rules and regulations. The Company suggests the information included in this report on Form 10-Q be read in conjunction with the financial statements and related notes included in the Company's Annual Report to Shareholders for the fiscal year ended August 31, 1997. The Company also suggests reading this report in conjunction with the definitive Proxy Statement relating to the Merger which was filed with the Securities and Exchange Commission on April 30, 1997 which includes certain pro forma financial information giving effect to the Merger.

Certain reclassifications have been made in the consolidated condensed financial statements to conform with the current year presentation.

The results of operations for the six months ended February 28, 1998 are not necessarily indicative of results for the entire fiscal year ending August 31, 1998.

NOTE 2 - NET INCOME PER COMMON SHARE

The Company has adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share" for the period ended February 28, 1998. Basic earnings per share is calculated by dividing income from continuing operations by the weighted-average number of common shares outstanding for the period. Diluted earnings per share is calculated by dividing income from continuing operations by the weighted-average number of common shares outstanding plus the assumed exercise of all dilutive securities using the treasury stock method. The following schedule reconciles the numerator and denominator of the basic and diluted earnings per share calculations (in thousands, except for per share amounts):

	Three Months Ended February 28,		Six Months Ended February 28,	
	1998	1997	1998	1997
Net income	$ 12,462	$ 13,044	$ 23,993	$ 26,068
Basic Weighted Average Shares:				
Weighted average shares outstanding	24,774	19,735	24,769	19,870
Plus: Incremental shares from assumed exercises of stock options using the treasury stock method	649	1,044	711	975
Diluted Weighted Average Shares:				
Total weighted average shares outstanding and common stock equivalents	25,423	20,779	25,480	20,845
Basic EPS	$ 0.50	$ 0.66	$ 0.97	$ 1.31
Diluted EPS	$ 0.49	$ 0.63	$ 0.94	$ 1.25

NOTE 3 - INVENTORIES

Inventories are comprised of the following (in thousands):

	February 28, 1998 (unaudited)	August 31, 1997
Finished Goods	$ 36,111	$ 40,955
Work in Process	5,256	7,286
Raw Materials	11,377	7,507
	$ 52,744	$ 55,748

NOTE 4 - PRO FORMA RESULTS OF OPERATIONS

The following unaudited pro forma information presents a summary of consolidated results of operations of the Company as if the Covey Merger and the acquisition of Premier School Agendas ("Premier") had occurred at the beginning of the fiscal year ended August 31, 1997. Pro forma adjustments have been made to give effect to amortization of goodwill, interest expense on acquisition debt and certain other adjustments. The pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the Merger and Premier acquisition been consummated at the beginning of the fiscal year ended August 31, 1997 (in thousands, except per share data).

	Three Months Ended February 28, 1998	1997	Six Months Ended February 28, 1998	1997
	(unaudited)		(unaudited)	
Sales	$ 138,564	$ 131,911	$ 282,483	$ 264,679
Income from Operations	22,568	19,249	47,203	42,081
Income before Cumulative Effect of Accounting Change	12,462	10,655	26,073	23,234
Net Income	12,462	10,655	23,993	23,234
Earnings Per Share:				
Basic	$ 0.50	$ 0.43	$ 0.97	$ 0.93
Diluted	0.49	0.41	0.94	0.89

NOTE 5 - CHANGE IN ACCOUNTING PRINCIPLE

On November 20, 1997, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board issued consensus ruling 97-13 which requires certain business reengineering and information technology implementation costs that have previously been capitalized to be expensed as incurred. In addition, any previously capitalized costs which are addressed by EITF 97-13 were written off as a cumulative adjustment in the quarter ended November 30, 1997.

The Company is currently involved in a business reengineering and information system implementation project and has capitalized costs in accordance with generally accepted accounting standards. Certain previously capitalized costs of the project were written off in accordance with EITF 97-13 during the Company's first quarter of fiscal 1998. During the Company's second quarter of fiscal 1998, the majority of costs associated with the information system implementation were capitalized in accordance with Statement of Position 98-1, " Accounting for the Cost of Computer Software Developed or Obtained for Internal Use" and EITF 97-13. In addition, the Company expects that the majority of the remaining costs of the project will qualify for capitalization.

No corresponding pro forma disclosures for the three and six months ended February 28, 1997 are necessary for this change in accounting principle since the Company did not have any costs associated with the project or other costs that would need to be expensed under the provisions of EITF 97-13 during these periods.

FRANKLIN COVEY CO.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Consolidated Financial Statements, the Notes thereto and the Management's Discussion and Analysis included in the Company's Annual Report to Shareholders for the fiscal year ended August 31, 1997.

The Company has reviewed its information systems and does not believe they are affected by any significant problems related to the "year 2000" computer date issue. However, the Company could be impacted by "year 2000" issues affecting the information processing systems of vendors and other organizations with which the Company does business. During fiscal 1997, the Company began a project to replace its current information systems with newer integrated systems to support Company growth. These newer systems are "year 2000" compliant.

RESULTS OF OPERATIONS

The following table sets forth selected data concerning the sales of the Company's products and services:

	Three Months Ended February 28,			Six Months Ended February 28,		
	1998	1997	Change	1998	1997	Change
	(in thousands)			(in thousands)		
Product sales	$ 91,575	$ 80,190	14%	$ 181,590	$ 155,124	17%
Training sales	40,994	20,641	99%	86,838	41,308	110%
Services	5,995	5,127	17%	14,055	11,903	18%
	$ 138,564	$ 105,958	31%	$ 282,483	$ 208,335	36%

Three Months Ended February 28, 1998 Compared With Three Months Ended February 28, 1997

Sales for the three months ended February 28, 1998, increased $32.6 million, or 31%, over the same period in 1997 primarily as a result of the Merger, an increase in the number of Franklin Planners sold, an increase in the number of participants attending public seminars and the effects of other corporate acquisitions.

Product sales increased $11.4 million, or 14%, compared to the corresponding quarter of the prior year. Of this increase, $9.9 million came from growth in retail store sales, which was in large part due to the number of stores opened during the past twelve months. At the end of the second quarter of fiscal 1997 there were 95 retail stores, compared to 117 such stores at the end of the current quarter. Comparable store sales increased 6% for the quarter ended February 28, 1998 compared to the quarter ended February 28, 1997. The remaining increase in sales was primarily due to increased revenues from catalog sales and international product sales over the corresponding period of the prior year.

Training sales increased $20.4 million, or 99%, over the same quarter a year ago. This increase was primarily attributable to incremental training sales resulting from the Merger. The Company expects that, in the future, training sales as a percentage of total sales will decline because product sales will increase at a faster rate due to strong renewals of replacement planners.

Printing services revenue increased by $0.9 million or 17%, compared to the same quarter a year ago. The increase was primarily a result of several large printing jobs being sold and delivered during the quarter as well as the incremental printing service revenues from Premier's printing division which was acquired subsequent to the second quarter of the prior year.

Gross margin was 61.4% of sales in the three months ended February 28, 1998, compared to 59.4% for the same period in 1997. The increase in gross margin for the Company as a whole reflects the higher margins on certain Covey products and services added as a result of the Merger and a favorable mix of revenues from higher margin products and services.

Operating expenses, consisting primarily of selling, general and administrative expenses, increased by 6.0% as a percentage of sales during the three months ended February 28, 1998 (45.1% compared to 39.1% in the same period of 1997). The increase reflects the higher operating expenses, as a percentage of sales, of Covey and Premier, as well as overall increases in operating expenses for the Company as a whole. Depreciation and leasehold amortization charges were higher by $2.0 million because of new equipment purchased to augment management information systems and improve customer service and the addition of leasehold improvements in new stores. Amortization charges increased $2.1 million primarily due to amortization of intangible assets acquired in connection with the Merger and the acquisition of Premier.

Income taxes were accrued using an effective rate of 41.5% for the three months ended February 28, 1998 compared to 40.3% for the same quarter of fiscal 1997. The increase was due primarily to non-deductible goodwill generated from the Merger and other acquisitions.

Six Months Ended February 28, 1998 Compared with Six Months Ended February 28, 1997

Sales for the first six months of fiscal 1998 increased $74.1 million, or 36% over the same period in fiscal 1997, primarily as a result of the Merger, an increase in the number of Franklin Planners sold, an increase in the number of participants attending public seminars and the effects of other corporate acquisitions.

Product revenue for the first six months of fiscal 1998 increased $26.5 million, or 17%, as compared to the first six months of the previous fiscal year. Retail store sales comprised $18.4 million of this increase, which represented a 30% increase compared to the first six months of fiscal 1997. The increase in retail store sales is due in large part to the number of stores opened during the past twelve months. At the end of the second quarter, there were 117 retail stores open, compared to 95 retail stores at February 28, 1997. The remaining increase in sales was primarily due to increased revenues from catalog sales and international product sales over the corresponding period of the prior year.

Training revenue for the first six months grew by approximately $45.5 million or 110%, compared to the same period a year ago. This increase was primarily caused by the addition of training sales from the Merger.

Printing services revenue increased by $2.2 million or 18%, compared to the first six months of fiscal 1997. The increase was primarily a result of several large printing jobs being sold and delivered during the first six months of the current year as well as the incremental printing service revenues from Premier's printing division which was acquired subsequent to the second quarter of the prior year.

Gross margin was 61.0% of sales in the first six months of fiscal 1998 compared to 58.6% in the comparable six months of fiscal 1997. The increase in gross margin for the Company as a whole reflects the higher margins on certain Covey products and services added as a result of the Merger and a favorable mix of revenues from higher margin products and services

Operating expenses increased to 44.3% of sales for the first six months of fiscal 1998 compared to 37.8% for the first six months of the previous year. The increase reflects the higher operating expenses, as a percentage of sales, of Covey and Premier, as well as overall increases in operating expenses for the Company as a whole. Depreciation and leasehold amortization charges were higher by $3.3 million compared to the same period a year ago because of new equipment purchased to augment management information systems and improve customer service and the addition of leasehold improvements in new stores. Amortization charges increased by $4.4 million, primarily due to amortization of intangible assets acquired in connection with the merger with Covey and the Premier acquisition.

On November 20, 1997, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board issued a consensus ruling, which requires that certain business and information system reengineering costs that would have been capitalized must be expensed as incurred. In addition, certain previously capitalized reengineering costs were required to be written off as a cumulative adjustment during the Company's quarter ended November 30, 1997. In accordance with this ruling, the Company recorded a charge of $2.1 million, net of related income taxes, during its first fiscal quarter of 1998 to write off certain costs of its business and information systems reengineering project that had been previously capitalized.

Income taxes have been accrued using an effective rate of 41.5% for the six months ended February 28, 1998, compared to 40.3% for the same quarter of fiscal 1997. The increase in the tax rate was due primarily to non-deductible goodwill generated from the Merger and other acquisitions.

LIQUIDITY AND CAPITAL RESOURCES

Historically, the Company's primary sources of capital have been net cash provided by operating activities, long-term borrowing, capital lease financing and the sale of Common Stock. Working capital requirements have also been financed through short-term borrowing. At February 28, 1998, the Company had $24.0 million in cash and cash equivalents.

Net cash provided by operating activities during the six months ended February 28, 1998 was $38.7 million. Net cash used in investing activities was $28.7 million. Of this total, $16.5 million was invested in property and equipment, and the balance consisted of contingent earn out payments from previous corporate acquisitions. During the first six months of fiscal 1998, the Company used $5.8 million to repurchase 260,800 shares of its Common Stock on the open market.

Working capital during the period increased by $12.6 million. Management believes that cash flows and available credit facilities are sufficient to meet working capital requirements, including anticipated increases in accounts receivable and inventories associated with sales increases.

The Company also has available lines of credit, not utilized at February 28, 1998, of $14.0 million. The Company was in compliance with the borrowing covenants associated with these lines of credit as of February 28, 1998.

"SAFE HARBOR" STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

With the exception of historical information (information relating to the Company's financial condition and results of operations at historical dates or for historical periods), the matters discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations are forward-looking statements that necessarily are based on certain assumptions and are subject to certain risks and uncertainties. Such uncertainties include, but are not limited to, unanticipated developments in any one or more of the following areas: the integration of acquired or merged businesses, management of growth, dependence on products or services, the rate and consumer acceptance of new product introductions, competition, the number and nature of customers and their product orders, pricing, pending and threatened litigation and other risk factors which may be detailed from time to time in the Company's Press Releases, reports to shareholders and in the Securities and Exchange Commission filings.

These forward-looking statements are based on management's expectations as of the date hereof, and the Company does not undertake any responsibility to update any of these statements in the future. Actual future performance and results could differ from that contained in or suggested by these forward-looking statements as a result of the factors set forth in this Management's Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere in the Company's filings with the Securities and Exchange Commission.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings:

Not applicable.

Item 2. Changes in Securities:

Not applicable.

Item 3. Defaults upon Senior Securities:

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders:

The Company held its Annual Meeting of Shareholders on January 9, 1998. Steven C. Wheelwright was elected as a member of the Board of Directors for a three-year term expiring at the annual meeting of shareholders to be held in 2001, or until his successor is elected and qualified. The number of shares voted in favor of Mr. Wheelwright's election was 19,390,425.

During the annual meeting, the shareholders also ratified the appointment of Arthur Andersen LLP independent certified public accountants for the fiscal year ending August 31, 1998.

Item 5. Other information:

In September 1996, the Board of Directors approved the repurchase of up to 2,000,000 shares of the Company's Common Stock. As of March 31, 1998, the Company had acquired 1,687,800 shares at an average price of $22.71 per share.

In March 1998, the Board of Directors approved a 3,000,000 share expansion of the Company's Common Stock repurchase program.

Item 6. Exhibits and Reports on Form 8-K:

(A) Exhibits: Not applicable.

(B) Reports on Form 8-K: Not applicable.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FRANKLIN COVEY CO.

Date: ______________________________ By: ____________________________
Jon H. Rowberry
President
Chief Executive Officer

Date: ______________________________ By: ____________________________
John L. Theler
Executive Vice President

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FRANKLIN COVEY CO.
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US DOLLARS

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DEC-01-1997
FEB-28-1998
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