SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED AUGUST 31, 1998

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ______________ TO _______________

FRANKLIN COVEY CO.

(Exact name of registrant as specified in its charter)

Utah	001-11107	87-0401551
(State or other jurisdiction of incorporation)	(Commission File No.)	(IRS Employer Identification No.)

2200 West Parkway Boulevard
Salt Lake City, Utah 84119-2331

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (801) 817-1776

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.05 Par Value	New York Stock Exchange

[ ] Securities registered pursuant to Section 12(g) of the Act: None

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 by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the Common Stock held by non-affiliates of the Registrant on November 1, 1998, based upon the closing sale price of the Common Stock of $19.75 per share on that date, was approximately $419,907,554. Shares of the Common Stock held by each officer and director and by each person who may be deemed to be an affiliate of the Registrant have been excluded.

As of November 1, 1998, the Registrant had 21,261,142 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the following documents are incorporated by reference in Parts, II, III and IV of this Form 10-K: (1) Registrant's Annual Report to Shareholders, for the fiscal year ended August 31, 1998 (Parts II and IV), and (2) Proxy Statement for Registrant's Annual Meeting of Shareholders which is scheduled to be held on January 8, 1999 (Part III).

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PART I

Item 1. BUSINESS

GENERAL

Franklin Covey Co. (the "Company" or "Franklin Covey") is an international professional services and leadership development firm dedicated to increasing the effectiveness of individuals and organizations. To achieve that goal, the Company provides consulting services, seminars and workshops, educational materials, publications and products designed to empower individuals and organizations to become more effective. The offerings include a comprehensive time and life management system that enables individuals to better manage their time by identifying goals and prioritizing the tasks necessary to achieve them. The Company also provides training, consulting services and products designed to improve written and oral business communication skills. Franklin Covey also offers book and commercial printing services. To facilitate implementation of the principles it teaches, the Company produces and markets its primary product, the Franklin Planner(R).

The basic Franklin Planner consists of a paper-based, two-page per day Franklin Covey planning system combined with a seven-ring binder, a variety of planning aids, weekly, monthly and annual calendars and personal management sections. The Franklin Planner can also be purchased in one-page per day or two-page per week versions. The Company offers various forms and accessories that allow users to expand and customize their Franklin Planner. Franklin Covey markets the Franklin Planner and accessory products directly to organizations, and through its sales catalog and retail stores. At August 31, 1998, Franklin Covey had 120 domestic retail stores located in 36 states and the District of Columbia. A significant percentage of the users of the Franklin Planner continue to purchase a renewal planner each year, creating substantial recurring sales.

The principles taught in the Company's curriculum have also been published, in many cases, in book and audio tape form. Books sold by the Company include THE 7 HABITS OF HIGHLY EFFECTIVE PEOPLE, PRINCIPLE-CENTERED LEADERSHIP, FIRST THINGS FIRST, and THE 7 HABITS OF HIGHLY EFFECTIVE FAMILIES, all by Stephen R. Covey, THE 10 NATURAL LAWS OF TIME AND LIFE MANAGEMENT by Hyrum W. Smith, THE POWER PRINCIPLE by Blaine Lee and THE 7 HABITS OF HIGHLY EFFECTIVE TEENS, by Sean Covey. These books, as well as audio tape versions of many of these products, are sold through general retail channels, as well as through the Company's own catalog and retail stores.

Product sales, consisting primarily of the Franklin Planner and related products, accounted for 62.9% of the Company's sales during the year ended August 31, 1998.

Franklin Covey provides its effectiveness training materials to business, industry, educational institutions, communities and individuals. The Company sells its services to the organizational market through its own direct sales force. The Company delivers its training services to organizations in one of three ways:

1. Franklin Covey consultants provide on-site consulting or training classes for organizations. In these situations, the Franklin Covey consultant can tailor the curriculum to the client's specific business and objectives.

2. The Company also conducts public seminars in more than 200 cities throughout the United States, where organizations can send their employees in smaller numbers. These public seminars are also marketed directly to the public through the Company's catalog, retail stores, and by direct mail.

3. The Company's programs are also designed to be facilitated by licensed professional trainers and managers in client organizations, reducing dependence on the Company's professional presenters, and creating continuing revenue as participant materials are purchased for trainees by these facilitators.

In fiscal 1998, the Company provided products and services to 80 of the Fortune 100 and more than 75% of the Fortune 500. The Company also provides its products and services to a number of U.S. and foreign governmental agencies, including the U.S. Department of Defense, as well as educational institutions. The Company also markets its services and products internationally outside the United States and Canada (in 34 countries) through Company-owned direct operations and/or licensed operations.

Professional services, including training presented by client facilitators, accounted for 32.0% of the Company's sales, representing more than 750,000 individuals trained, during the year ended August 31, 1998.

In December 1995, the Company acquired the assets of Productivity Plus, Inc. ("Productivity Plus"), a time management company headquartered in Chandler, Arizona. Productively Plus offers a paper-based, refillable planner/organizer and accessories principally to customers in branches of the U.S. military.

Effective October 1, 1996, the Company acquired the assets of TrueNorth Corporation ("Personal Coaching"), a training company headquartered in Salt Lake City, Utah. Personal Coaching provides post-instruction personalized coaching to corporations and individuals to augment the effectiveness and duration of quality training curricula.

Effective March 4, 1997, the Company acquired the assets of Premier Agendas, Inc., and Premier School Agendas, Ltd. (collectively, "Premier"), the leading provider of academic and personal planners for students from kindergarten to college throughout the United States and Canada. Premier has a user base of approximately twelve million students.

Effective June 2, 1997, Covey Leadership Center, Inc. ("Covey") was merged with and into the Company (the "Merger") and the name of the Company was changed to Franklin Covey Co. Management believes that the Merger positions the Company as a leading provider of products and training services designed to increase the effectiveness of individuals and organizations. The Merger broadened the range of products and services offered to include Covey's top-rated leadership programs, "The 7 Habits of Highly Effective People(R)" and "Principle-Centered Leadership(R)," increased the Company's capacity to develop and market new programs and products and created the potential for significant efficiencies and synergies as distribution and production facilities were combined.

Unless the context requires otherwise, all references to the "Company" or to "Franklin Covey" herein refer to Franklin Covey Co. and each of its operating divisions and subsidiaries. The Company's principal executive offices are located at 2200 West Parkway Boulevard, Salt Lake City, Utah 84119-2331 and its telephone number is (801) 817-1776.

FRANKLIN COVEY PRODUCTS

Based upon its belief that organizational and individual productivity require effective time management, the Franklin Planner has been developed as the basic tool for implementing the principles of Franklin Covey's time management system. The Franklin Planner consists of a paper-based Franklin Covey planning system, a binder in which to carry it, various planning aids, weekly, monthly and annual calendars as well as personal management sections. Franklin Covey offers a broad line of renewal planners, forms and binders for the Franklin Planner, which are available in various sizes and styles. During the fiscal year ended August 31, 1998, product sales, consisting primarily of the Franklin Planner and related products, amounted to $343.8 million and accounted for 62.9% of Franklin Covey's sales during the period.

PLANNERS. Planners, forms, tabs, and retail kits generated more than $137 million in total sales during fiscal 1998. Planner renewals are available for the Franklin Planner in five sizes and various styles and consist of daily or weekly formats, appointment schedules, task lists, monthly calendars, daily expense records, daily record of events, and personal management pages for an entire year. Annual Renewal Planners range in price from $18.00 to $37.00. The Master Pack, which includes personal management tabs, a guide to using the planner, a pagefinder and weekly compass cards completes a Franklin Planner. The Master Pack price ranges from $6.00 to $7.00.

BINDERS. Franklin Covey offers binders and accessories (briefcases, portfolios, wallets/purses, leather care products, etc.) in a variety of materials, styles and Franklin Planner sizes. These materials include high quality leathers, fabrics, synthetics and vinyls in a variety of color and design options. Binder styles include zipper closures, snap closures, and open formats with pocket configurations to accommodate credit cards, business cards, checkbooks and writing instruments. Category products pricing ranges from $3.00 to $300.00.

SOFTWARE. The Company also offers its ASCEND(R) program, a complete Personal Information Management ("PIM") system which can be used in conjunction with the paper-based Franklin Planner or used as a stand-alone PIM system. ASCEND permits users to generate and print data on Franklin Covey paper which can be inserted directly into the Franklin Planner. The ASCEND program operates in both the Windows(R) and Macintosh(R) environments. Franklin Covey offers ASCEND at a retail price of $99.95 which includes all necessary software, related tutorials and reference manuals. Franklin Covey offers ASCEND through nationwide retail software stores, in its own retail stores and catalog, and a specially-designed "home user" version through Sam's Club and Price Costco. Franklin Covey is also an OEM provider of the PalmPilotTM which includes the ASCEND software. The PalmPilot is a handheld electronic device manufactured by 3Com(R). The PalmPilot has become another successful planning tool offered by the Company through its catalog and retail store operations. The Company has introduced products that can add paper-based planning to the electronic planner as well as binders and carrying cases specific to the PalmPilot.

PERSONAL DEVELOPMENT PRODUCTS. To supplement its principal products, Franklin Covey offers a number of accessories and related products, including books, video tapes and audio cassettes focused on time management, leadership, personal improvement and other topics. The Company also markets a variety of content-based personal development products. These products include books, PrioritiesTM magazine, audio learning systems such as multi-tape and workbook sets, CD-ROM software products, calendars, posters and other specialty name brand items. The Company has also identified the home and family market for development of principle-centered personal development products. Franklin Covey published and launched Dr. Covey's latest book, THE 7 HABITS OF HIGHLY EFFECTIVE FAMILIES, in October 1997. The Company offers numerous accessory forms, including check registers, spread sheets, stationery, mileage logs, maps, menu planners, shopping lists and other information management and project planning forms. The Company's accessory products and forms are generally available in the Franklin Planner sizes.

TRAINING, FACILITATION AND CONSULTING SERVICES

Franklin Covey's training, facilitation and consulting services are marketed and delivered in the United States by the Company's Professional Services Group, which consists of talented consultants selected through a competitive and demanding process and highly qualified sales professionals.

Franklin Covey currently employs 144 training consultants in major metropolitan areas of the United States and an additional 39 training consultants outside of the United States. Training consultants are selected from a large number of experienced applicants. These consultants generally have several years of training and/or consulting experience and excellent presentation skills. Once selected, the training consultant goes through a rigorous training program including multiple live presentations. The training program ultimately results in the Company's certification of the consultant. Franklin Covey believes that the caliber of its training consultants has helped build its reputation of providing high quality seminars. The Company's Professional Services Group can also help organizational clients diagnose inefficiencies in their organization and design the core components of a client's organizational solutions. The efforts of the consultants are enhanced by several proprietary consulting tools the Company has designed for their use: Organizational Health Assessment(TM) ("OHA"), used to assess client needs; the Organizational Effectiveness Cycle(TM) ("OE-Cycle(TM)"), utilized for organizational diagnosis and re-design; and the Principle-Centered Organizational Change Process(TM) ("PCOC Process(TM)"), a rigorous methodology for organizational change management.

Franklin Covey's Professional Services Group is organized in sales teams in order to assure that both the consultant and the client sales professional participate in the development of new business and the assessment of client needs. Consultants are then entrusted with the actual delivery of content, seminars, processes and other solutions. Consultants follow up continuously with client service teams, working with them to develop lasting client impact and ongoing business opportunities.

WORKSHOPS. Franklin Covey offers a range of workshops designed to empower organizations and individuals to effect principle-centered leadership and change. The Company's workshops are oriented to address each of the four levels of leadership needs: personal, interpersonal, managerial and organizational. In addition, the Company believes each of its workshops provides an impactful experience and frequently generates additional business. During fiscal 1998, more than 750,000 individuals were trained using the Company's curriculum in its single and multiple-day workshops and seminars.

Franklin Covey's workshops include its three-day 7 Habits workshop based upon the material presented in THE 7 HABITS OF HIGHLY EFFECTIVE PEOPLE. The 7 HABITS workshop provides the foundation for continued client relationships and generates more business as the Company's content and application tools are delivered deeper into the organization. Additionally, a three-day PRINCIPLE-CENTERED LEADERSHIP course is offered, which focuses on the managerial aspects of client needs.

FRANKLIN COVEY LEADERSHIP WEEK, which management believes is one of the premier leadership programs in the United States, consists of a five-day session focused on materials from Franklin Covey's 7 HABITS OF HIGHLY EFFECTIVE PEOPLE and PRINCIPLE-CENTERED LEADERSHIP courses. FRANKLIN COVEY LEADERSHIP WEEK is reserved for executive level management. As a part of the week's agenda, executive participants design strategies for long-term implementation of the Company's principles and content within their organizations.

Franklin Covey's single-day TIMEQUEST seminar and FIRST THINGS FIRST workshop are designed to complement other Company curricula and compete in the time management industry. These time management seminars are conducted by the Company's training consultants for employees of clients and in public seminars throughout the United States and in many foreign countries. Public seminars and workshops utilizing the FIRST THINGS FIRST curriculum are also conducted in the United States by SkillPath, Inc. ("SkillPath"), a national provider of training seminars and workshops, under a license arrangement between Franklin Covey and SkillPath. These courses are conducted using the materials presented in the books titled THE 10 NATURAL LAWS OF TIME AND LIFE MANAGEMENT and FIRST THINGS FIRST. In October 1998, the Company launched a new time management seminar titled "WHAT MATTERS MOST(R)." This new seminar includes content from both pre-existing time management seminars and has added new material to create a new and improved time management curriculum. Though there are still many licensed trainers for TIMEQUEST and FIRST THINGS FIRST, the Company intends for the new WHAT MATTERS MOST seminar to replace the other time management seminars. The Company offers a number of other single-day seminars and workshops including PRESENTATION ADVANTAGE(TM), a seminar helping individuals and organizations make more effective business presentations; WRITING ADVANTAGE(R), a seminar that teaches better business writing and communication skills; PLANNING FOR RESULTS(TM); BUILDING TRUST(TM); and POWER OF UNDERSTANDING(TM). The Company's training consultants conduct these seminars and workshops for employees of institutional clients and public seminar participants.

In addition to providing consultants and presenters, Franklin Covey also trains and certifies client facilitators to teach selected Company workshops within the client's organization. Franklin Covey believes client-facilitated training is important to its fundamental strategy to create recurring client revenue streams. After having been certified, clients purchase manuals, profiles, planners and other products to conduct training workshops within their organization, generally without the Company repeating the sales process. This creates an annuity-type business, providing recurring revenue, especially when combined with the fact that curriculum content in one course leads the client to additional participation in other Company courses. Since 1988, Franklin Covey has trained more than 19,000 client facilitators. Client facilitators are certified only after graduating from one of Franklin Covey's certification workshops and completing post-course certification requirements.

Franklin Covey regularly sponsors public seminars in cities throughout the United States and in several foreign countries. The frequency of seminars in each city or country depends on the concentration of Franklin Covey clients, the level of promotion and resulting demand, and generally ranges from semi-monthly to quarterly. Smaller institutional clients often utilize the public seminars to train their employees.

In fiscal 1996, Franklin Covey introduced the Franklin Covey Leadership Library series of video workshops. The Franklin Covey Leadership Library is a series of stand-alone video workshops that can be used in informal settings as discussion starters, in staff meetings or as part of an in-house leadership development program.

PERSONAL COACHING. Franklin Covey offers post-seminar training in the form of personal coaching. The Company employs 41 coaches that interact with clients on the telephone to help them implement the training from the seminar they have taken. The Company offers personal coaching for some of its own curriculum as well as seminars offered by other training companies.

Sales of training services for the year ended August 31, 1998 were $174.9 million and accounted for 32.0% of Franklin Covey's total sales during the period.

SALES AND MARKETING

The following table sets forth, for the periods indicated, the Company's sales and percentage of total sales for each of its principal distribution channels:

	Year Ended August 31,					
	1998		1997		1996	
Product Sales	$343,832	62.9%	$301,687	69.6%	$236,039	71.1%
Training Services	174,927	32.0	107,417	24.8	70,812	21.3
Printing Services	27,853	5.1	24,168	5.6	25,155	7.6
Total Sales	$546,612	100.0%	$433,272	100.0%	$332,006	100.0%

PRODUCTS. Franklin Covey uses catalogs, retail stores and a direct product sales force to market its products to organizations and individuals.

CATALOG. Franklin Covey periodically mails catalogs to its clients, including a reference catalog, holiday catalog, catalogs timed to coincide with planner renewals and catalogs related to special events, such as store openings or new product offerings. Catalogs may be targeted to specific geographic areas or user groups as appropriate. Catalogs are typically printed in full color with an attractive selling presentation highlighting product benefits and features.

Franklin Covey maintains a client service department which clients may call toll-free, 24 hours a day, Monday through Saturday, to inquire about a product or to place an order. Through Franklin Covey's computerized order entry system, client representatives have access to client preferences, prior orders, billings, shipments and other information on a real-time basis. Each of the Company's more than 375 customer service representatives has the authority to immediately solve any client service problem.

Franklin Covey utilizes a zone picking system for processing orders. This system enables the Company to respond rapidly to client orders. Client information stored within the order entry system is also used for additional purposes, including target marketing of specific products to existing clients and site selection for Company retail stores. Franklin Covey believes that its order entry system helps assure client satisfaction through both rapid delivery and accurate order shipment.

RETAIL STORES. Beginning in late 1985, Franklin Covey began opening retail stores in areas of high client density. The initial stores were generally located in lower traffic destination locations. The Company has since adopted a strategy of locating retail stores in high-traffic retail centers, primarily large shopping malls, to serve existing clients and to attract increased numbers of walk-in clients. Franklin Covey believes that higher costs associated with locating retail stores in these centers have been offset by increased sales in these locations. Franklin Covey's retail stores, which average approximately 2,000 square feet, are stocked almost entirely with Franklin Covey products. The Company's retail stores strategy focuses on providing exceptional client service at the point of sale that Franklin Covey believes increases client satisfaction as well as the frequency and volume of purchases. At August 31, 1998, Franklin Covey had 120 domestic retail stores located in 36 states and the District of Columbia.

Franklin Covey attracts existing clients to its retail stores by informing them of store openings through direct mail advertising. The Company believes that its retail stores encourage walk-through traffic and impulse-buying and that store clients are a source of participants for Franklin Covey's public seminars. The stores have also provided the Company with an opportunity to assess client reaction to new product offerings.

Franklin Covey believes that its retail stores have a high-end image consistent with its marketing strategy. Franklin Covey's products are generally grouped in sections supporting the different sizes of the Franklin Planner. Products are attractively presented and displayed with an emphasis on integration of related products and accessories. Stores are staffed with a manager, an assistant manager and additional sales personnel as needed. Franklin Covey employees have been trained to use the Franklin Planner, enabling them to assist and advise clients in selection and use of the Company's products. During peak periods, additional personnel are added to promote prompt and courteous client service.

In November 1998, the Company completed an agreement to sell selected Franklin Planners and binders through Office Depot, a mass-market retail operation with approximately 580 stores. The agreement allows Office Depot to market and sell selected Franklin Planners, renewal planners, master packs, binders and accessories in a four-foot retail shelf location in their stores. The Company anticipates that this relationship will allow its products to become more readily available to its current customer base as well as attract new customers to the planning system. The Company believes that additional anticipated revenues will more than offset the anticipated lower margins from selling product through this channel.

DIRECT PRODUCT. As part of its strategy to adapt Franklin Covey's services and products to additional market segments, the Company develops and markets customized forms, pagefinders, tabs, binders and sales and training materials for specific applications such as for use by salespersons, real estate professionals and government employees. Franklin Covey believes that the Franklin Planner is effective in communicating uniform marketing plans, product information and procedures to large numbers of employees, sales representatives and distributors.

In January 1998, the Company formed an alliance with the At-A-Glance group to sell its products through the category contract stationer channel. At-A-Glance wholesales other products to contract stationer businesses such as Boise Cascade, Office Express and Staples, which in turn sell office products through catalog order entry systems to businesses and organizations. The Company signed an agreement to have At-A-Glance represent a selected Franklin Planner product line through this office products channel. The Company believes that additional anticipated revenues will more than offset the anticipated lower margins from selling product through this channel.

Premier markets agendas to schools and school districts in order to help teachers and students enhance the learning process. Premier sold more than 12 million agendas in fiscal 1998 mostly in the United States and Canada. Premier has a direct sales force of 115 sales professionals. An agenda consists of a wire-bound notebook with dated pages to help the student keep track of assignments and due dates. Most agendas are customized to include the individual school's rules, regulations, administrators and scheduled events.

Productivity Plus markets The Ultimate Organizer(TM), an undated, paper-based planner, together with annual renewal calendars and accessories. Approximately 85% of Ultimate Organizer sales are to customers within branches of the U.S. military.

TRAINING SALES. Franklin Covey's sales professionals market the Company's training and consulting services to institutional clients and public seminar clients.

Franklin Covey employs 219 sales professionals who service major metropolitan areas throughout the United States and sell training services to institutional clients. Franklin Covey employs an additional 63 sales professionals outside of the United States. Sales professionals must have significant selling experience prior to employment by the Company and are trained and evaluated at Franklin Covey and in their respective sales territories during the first six months of employment. Sales professionals typically call upon persons responsible for corporate employee training, such as corporate training directors or human resource officers. Sales professionals work closely with training consultants in their territories to schedule and tailor seminars and workshops to meet specific objectives of institutional clients.

Franklin Covey also employs 144 training consultants throughout the United States who present institutional and public seminars in their respective territories and an additional 39 training consultants outside of the United States. Training consultants work with sales professionals and institutional clients to incorporate a client's policies and objectives in seminars and present ways that employee goals may be aligned with those of the institution.

Public seminars are planned, implemented and coordinated with training consultants by a staff of marketing and administrative personnel at the Company's corporate offices. These seminars provide training for the general

public and are also used as a marketing tool for attracting corporate and other institutional clients. Corporate training directors are often invited to attend public seminars to preview the seminar content prior to engaging Franklin Covey to train in-house employees. Smaller institutional clients often enroll their employees in public seminars when a private seminar is not cost effective. In the public seminars, attendees are also invited to provide names of potential persons and companies who may be interested in Franklin Covey's seminars and products. These referrals are generally used as prospects for Franklin Covey's sales professionals.

PRINTING SERVICES. Through the acquisition of Publishers Press in December 1994, Franklin Covey acquired greater control over printing of the materials for the Franklin Planner and of other related products. Publishers Press also provides book and commercial printing services to clients in the western United States.

STRATEGIC DISTRIBUTION ALLIANCES

Franklin Covey has pursued an aggressive strategy to create strategic alliances with innovative and respected organizations in an effort to develop effective distribution of its products and services. The principal distribution alliances currently maintained by Franklin Covey are: SIMON & SCHUSTER and GOLDEN FAMILY ENTERTAINMENT in publishing books for the Company; MICROSOFT to market the 7 Habits name in software; WYNCOM to promote and facilitate Dr. Covey's personal appearances and teleconferences; NIGHTINGALE-CONANT to market and distribute audio and video tapes of the Company's book titles; SKILLPATH to market and present the Company's public time management seminars; and AT-A-GLANCE to market and distribute selected Franklin Planners and accessories through catalog office supply channels.

INTERNATIONAL OPERATIONS

The Company provides products, training and printing services internationally through Company-owned and licensed operations. Franklin Covey has Company-owned operations and offices in Australia, Belgium, Canada, Japan, Mexico, New Zealand and the United Kingdom. These international offices serve organizations and individuals in more than 30 countries. The Company also markets its products and training services to more than 75 countries through licensee and copyright agreements. Franklin Covey operates retail operations in Australia, Canada, Japan and Mexico. Franklin Covey's four most popular books, THE 7 HABITS OF HIGHLY EFFECTIVE PEOPLE, PRINCIPLE-CENTERED LEADERSHIP, THE 10 NATURAL LAWS OF TIME AND LIFE MANAGEMENT and FIRST THINGS FIRST are currently published in multiple languages.

CLIENTS

Franklin Covey has developed a broad base of institutional and individual clients. The Company has more than 8,000 institutional clients consisting of corporations, governmental agencies, educational institutions and other organizations. The Company believes its products, workshops and seminars encourage strong client loyalty. Employees in each of Franklin Covey's distribution channels focus on providing timely and courteous responses to client requests and inquiries. Institutional clients frequently receive assistance in designing and developing customized forms, tabs, pagefinders and binders necessary to satisfy specific needs.

COMPETITION

TRAINING. Competition in the organizational training industry is highly fragmented with few large competitors. Franklin Covey estimates that the industry represents more than $6 billion in annual revenues and that the largest traditional organizational training firms have sales in the $200 million range. Based upon Franklin Covey's fiscal 1998 sales of approximately $175 million, the Company believes it is a leading competitor in the organizational training market. Other significant competitors in the leadership training market are Development Dimensions International, Achieve Global (formerly Zenger Miller), Organizational Dynamics Inc., Provant, and the Center for Creative Leadership.

CONSULTING. Franklin Covey's PCOC change management methodology, which it initiated in 1996, is directly linked to organization and culture change. Effective change is achieved through creating a principle-centered foundation within an organization and by aligning systems and structures with that foundation. Franklin Covey believes its approach to organization and culture change is distinguishable from the approach taken by more traditional change management and re-engineering firms, as Franklin Covey's approach complements rather than competes with the offerings of such firms.

PRODUCTS. The paper-based time management and personal organization products market is intensely competitive and subject to rapid change. Franklin Covey competes directly with other companies that manufacture and market calendars, planners, personal organizers, appointment books, diaries and related products through retail, mail order and other direct sales channels. In this market, several competitors have widespread name recognition. The Company believes its principal competitors include Day-Timer, At-A-Glance and Day Runner. Franklin Covey also competes, to a lesser extent, with companies that market substitutes for paper-based products, such as electronic organizers, software PIMs and hand-held computers. Franklin Covey's ASCEND software competes directly with numerous other PIMs. Many of Franklin Covey's competitors have significant marketing, product development, financial and other resources.

Given the relative ease of entry in Franklin Covey's product markets, the number of competitors could increase, many of whom may imitate the Company's methods of distribution, products and seminars, or offer similar products and seminars at lower prices. Some of these companies may have greater financial and other resources than the Company. Franklin Covey believes that the Franklin Planner and related products compete primarily on the basis of user appeal, client loyalty, design, product breadth, quality, price, functionality and client service. Franklin Covey also believes that the Franklin Planner has obtained market acceptance primarily as a result of the high quality of materials, innovative design, the Company's attention to client service, and the strong loyalty and referrals of its existing clients. Franklin Covey believes that its integration of training services with products has become a competitive advantage. Moreover, management believes that the Company is a market leader in the United States among a small number of integrated providers of time management products and services. Increased competition from existing and future competitors could, however, have a materially adverse effect on the Company's sales and profitability.

MANUFACTURING

The manufacturing operations of Franklin Covey consist primarily of printing, assembling, packaging and shipping components used in connection with the Franklin Covey product line.

Franklin Covey currently prints the various Franklin Planners and other related forms and tabs. The Company believes the acquisition of its own internal printing capacity has enabled it to control production costs of printed materials, exercise greater control over production schedules and timing of inventories, increase quality control and reduce risks associated with dependence on outside suppliers.

Franklin Covey obtains its high-quality paper from a supplier in Wisconsin that is a subsidiary of a Fortune 500 company. The paper is manufactured in two separate facilities to reduce the risk of a supply disruption. The Company believes there are several alternative suppliers available to meet Franklin Covey's paper needs. If Franklin Covey were required to obtain paper from another source, any resulting delay or disruption is not expected to have an adverse effect on its long-term business or financial condition.

The planners and other forms printed internally are cut, collated and finished in the Company's facilities. The products are then assembled and packaged for placement into inventory. Franklin Covey generally maintains three to four months of inventory. Franklin Covey primarily uses UPS, along with Federal Express and common carriers to ship its products to clients and to the Franklin Covey retail stores. Automated production, assembly and material handling equipment is used in the manufacturing process to insure consistent quality of production materials and to control costs and maintain efficiencies.

Binders used for Franklin Covey's products are produced from either leather, simulated leather, tapestry or vinyl materials. All of the vinyl binders are produced by multiple and alternative product suppliers. The tapestry, leather and simulated leather binders are manufactured by both third party and by Franklin Covey. Franklin Covey believes it enjoys good relations with its suppliers and vendors and does not anticipate any difficulty in obtaining the required binders and materials needed in its business.

The Company has implemented special procedures to insure a high standard of quality for its leather binders, most of which are manufactured by suppliers in the United States, Canada, Korea and China. Representatives of the Company attend leather shows and supervise the buying process by leather binder suppliers who purchase and inventory leather before producing and selling the finished binders to Franklin Covey.

Franklin Covey also purchases numerous accessories, including pens, books, videotapes, calculators and other products, from various suppliers for resale to its clients. These items are manufactured by a variety of outside contractors located in the United States and abroad. The Company does not believe that it is dependent on any one or more of such contractors and considers its relationships with such suppliers to be good.

TRADEMARKS, COPYRIGHTS AND INTELLECTUAL PROPERTY

Franklin Covey seeks to protect its intellectual property through a combination of trademarks, copyrights and confidentiality agreements. The Company claims rights for more than 120 trademarks in the United States and has obtained registration in the United States and many foreign countries for many of its trademarks, including Franklin Covey, TimeQuest, The 7 Habits of Highly Effective People, First Things First, Principle-Centered Leadership, What Matters Most, Franklin Planner, Ascend, Writing Advantage, and The Seven Habits. Franklin Covey considers its trademarks and other proprietary rights to be important and material to its business. Each of the marks set forth in italics above is a registered mark or a mark for which protection is claimed.

Franklin Covey owns all copyrights on its planners, books, manuals, text and other printed information provided in its training seminars, the programs contained within ASCEND and its instructional materials, and its software and electronic products, including audio tapes and video tapes. Franklin Covey licenses rather than sells all facilitator workbooks and other seminar and training materials in order to limit its distribution and use. Franklin Covey places trademark and copyright notices on its instructional, marketing and advertising materials. In order to maintain the proprietary nature of its product information, Franklin Covey enters into written confidentiality agreements with certain executives, product developers, sales professionals, training consultants, other employees and licensees. Although Franklin Covey believes its protective measures with respect to its proprietary rights are important, there can be no assurance that such measures will provide significant protection from competitors.

EMPLOYEES

As of August 31, 1998, Franklin Covey had 4,247 full and part-time associates, including 1,707 in sales, marketing and training; 1,332 in customer service and retail; 891 in production operations and distribution; and 317 in administration and support staff. None of Franklin Covey's associates are represented by a union or other collective bargaining group. Management believes that its relations with its associates are good. Franklin Covey does not currently foresee a shortage in qualified personnel needed to operate the Company's business.

Item 2. PROPERTIES

Franklin Covey's principal business operations and executive offices are located in Salt Lake City, Utah and Provo, Utah. The Company's Salt Lake City facilities currently consist of approximately 800,000 square feet, including approximately 491,000 square feet for manufacturing, distribution and warehousing, and approximately 309,000 square feet for administration. All of Franklin Covey's Salt Lake City facilities are owned by the Company, subject to mortgages of approximately $3.6 million as of August 31, 1998. The four buildings in Provo are located in a fifteen mile area. Franklin Covey occupies all or a portion of each of these buildings, with total leased space of approximately 173,000 square feet as of August 31, 1998, with leases that terminate intermittently through the year 2009. Franklin Covey's 120 retail stores are operated under leases with remaining terms of up to seven years; some of these leases include rentals based on a percentage of sales. The Company also maintains sales, administrative and/or warehouse facilities in or near Salt Lake City; Phoenix; Atlanta; Dallas; Washington, D.C.; Bellingham, Washington; Tokyo; London; Brussels, Belgium; Toronto; Vancouver; Montreal; Burlington; Brisbane, Australia; Monterrey, Mexico; Mexico City, Mexico; and Auckland, New Zealand under leases which expire intermittently through the year 2004. All of Franklin Covey's facilities are used exclusively by Franklin Covey and its divisions and are believed to be adequate and suitable for its current needs.

Item 3. LEGAL PROCEEDINGS

The Company is not a party to, nor is any of its property subject to, any material pending legal proceedings, nor are any such proceedings known to the Company to be contemplated.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the year ended August 31, 1998.

PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS

The Company's common stock is listed and traded on the New York Stock Exchange ("NYSE") under the symbol "FC." The following table sets forth, for the periods indicated, the high and low sale prices for the Company's common stock, as reported on the NYSE Composite Tape, for the fiscal years ended August 31, 1998 and 1997, respectively.

	High	Low
Fiscal Year Ended August 31, 1998:		
Fourth Quarter................................	$ 21 1/8	$ 18 9/16
Third Quarter.................................	25 3/4	19 1/4
Second Quarter................................	24 11/16	20 3/4
First Quarter.................................	28 1/8	21 1/8
Fiscal Year Ended August 31, 1997:		
Fourth Quarter................................	$ 28 1/4	$ 24 1/8
Third Quarter.................................	24	20 5/8
Second Quarter................................	22 7/8	20 1/2
First Quarter.................................	21 3/8	17 3/8

The Company did not pay or declare dividends on its common stock during the fiscal years ended August 31, 1997 and 1998. The Company currently anticipates that it will retain all available funds to finance its future growth and business expansion. The Company does not presently intend to pay cash dividends in the foreseeable future.

As of November 1, 1998, the Company had 21,220,813 shares of its common stock outstanding, held by approximately 360 shareholders of record.

Item 6. SELECTED FINANCIAL DATA

The information required by this Item is incorporated by reference to page 1 of the Company's 1998 Annual Report to Shareholders.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this Item is incorporated by reference to pages 6 through 11 of the Company's 1998 Annual Report to Shareholders.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item is incorporated by reference to pages 13 through 26 of the Company's 1998 Annual Report to Shareholders.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated by reference to the sections titled "Election of Directors," "Executive Officers" and "Executive Compensation" in the Company's definitive Proxy Statement for the annual meeting of shareholders which is scheduled to be held on January 8, 1999. The definitive Proxy Statement will be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the sections titled "Election of Directors--Director Compensation" and "Executive Compensation" in the Company's definitive Proxy Statement for the annual meeting of shareholders which is scheduled to be held on January 8, 1999.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to the section titled "Principal Holders of Voting Securities" in the Company's definitive Proxy Statement for the annual meeting of shareholders which is scheduled to be held on January 8, 1999.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to the section titled "Certain Relationships and Related Transactions" in the Company's definitive Proxy Statement for the annual meeting of shareholders which is scheduled to be held on January 8, 1999.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents Filed

1. Financial Statements. The following Consolidated Financial Statements of the Company and Report of Independent Public Accountants included in the Annual Report to Shareholders for the year ended August 31, 1998, are incorporated by reference in Item 8 hereof:

   Report of Arthur Andersen LLP, Independent Public Accountants, for the years ended August 31, 1998, 1997 and 1996

   Consolidated Balance Sheets at August 31, 1998 and 1997

   Consolidated Statements of Income for the years ended August 31, 1998, 1997 and 1996

   Consolidated Statements of Shareholders' Equity for the years ended August 31, 1998, 1997 and 1996

   Consolidated Statements of Cash Flows for the years ended August 31, 1998, 1997 and 1996

   Notes to Consolidated Financial Statements

2. Exhibit List.

Exhibit No.	Exhibit	Incorporated by Reference	Filed Herewith
3.1	Revised Articles of Incorporation of the Registrant	(1)	
3.2	Amended and Restated Bylaws of the Registrant	(1)	
4	Specimen Certificate of the Registrant's Common Stock, par value $.05 per share	(2)	
10.1	Amended and Restated 1992 Employee Stock Purchase Plan	(3)	
10.2	First Amendment to Amended and Restated 1992 Stock Incentive Plan	(4)	
10.3	Franklin 401(k) Profit Sharing Plan	(1)	
10.4	Forms of Nonstatutory Stock Options	(1)	
10.5	Merger Agreement-- Covey Leadership Center, Inc.	(5)	
10.6	Lease Agreements, as amended and proposed to be amended, by and between Covey Corporate Campus One, LLC and Covey Corporate Campus Two, LLC (Landlord) and Covey Leadership Center, Inc. (Tenant) which were assumed by Franklin Covey Co. in the Merger with Covey Leadership Center, Inc.	(6)	
10.7	Notes Payable Purchase Agreement for $85.00 million of 6.6% unsecured senior notes payable due 2008	(7)	
13	Annual Report to Shareholders for the year ended August 31, 1998. Certain portions of this exhibit are incorporated by reference into Items 6 through 8 of this Annual Report on Form 10-K and, except as so incorporated by reference, the Annual Report to Shareholders is not deemed to be filed as part of this Report.		(8)
22	Subsidiaries of the Registrant		(8)
23.1	Consent of Arthur Andersen LLP, Independent Public Accountants		(8)
27	Financial Data Schedule		(8)
99.1	Report of Arthur Andersen LLP, Independent Public Accountants, on Consolidated Financial Statement Schedule for the years ended August 31, 1998, 1997 and 1996		(8)
99.2	Valuation and Qualifying Accounts and Reserves. Financial statements and schedules other than those listed are omitted for the reason that they are not required or are not applicable, or the required information is shown in the Financial Statements or Notes thereto, or contained in this Report.		(8)

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(1) Incorporated by reference to Registration Statement on Form S-1 filed with the Commission on April 17, 1992, Registration No. 33-47283.

(2) Incorporated by reference to Amendment No. 1 to Registration Statement on Form S-1 filed with the Commission on May 26, 1992, Registration No. 33-47283.

(3) Incorporated by reference to Form 10-K filed November 27, 1992, for the year ended August 31, 1992.

(4) Incorporated by reference to Registration Statement on Form S-1 filed with the Commission on January 3, 1994, Registration No. 33-73728.

(5) Incorporated by reference to Reports on Form 8-K dated June 3, 1997.

(6) Incorporated by reference to Report of Form 10-K filed December 1, 1997, for the year ended August 31, 1997.

(7) Incorporated by reference to Report of Form 10-Q filed July 14, 1998, for the quarter ended May 31, 1998.

(8) Filed herewith and attached to this Report following page 22 hereof.

(b) Reports on Form 8-K

None.

(c) Exhibits

Exhibits to this Report are attached following hereof.

(d) Financial Statement Schedule

See herein.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on November 24, 1998.

FRANKLIN COVEY CO.

By: /s/ JON H. ROWBERRY

Jon H. Rowberry, President,
Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ HYRUM W. SMITH Hyrum W. Smith	Chairman of the Board	November 24, 1998
/s/ STEPHEN R. COVEY Stephen R. Covey	Co-Chairman of the Board	November 24, 1998
/s/ JON H. ROWBERRY Jon H. Rowberry	President, Chief Executive Officer and Director	November 24, 1998
/s/ STEPHEN M. R. COVEY Stephen M. R. Covey	Executive Vice President and Director	November 24, 1998
/s/ JOHN L. THELER John L. Theler	Executive Vice President and Chief Financial Officer	November 24, 1998
/s/ J. SCOTT NIELSEN J. Scott Nielsen	Chief Accounting Officer	November 24, 1998

/s/ STEVEN C. WHEELWRIGHT - --------------------------------------- Steven C. Wheelwright	Director	November 24, 1998
/s/ ROBERT F. BENNETT - --------------------------------------- Robert F. Bennett	Director	November 24, 1998
/s/ BEVERLY B. CAMPBELL - --------------------------------------- Beverly B. Campbell	Director	November 24, 1998
/s/ ROBERT H. DAINES - --------------------------------------- Robert H. Daines	Director	November 24, 1998
/s/ E. J. "JAKE" GARN - --------------------------------------- E. J. "Jake" Garn	Director	November 24, 1998
/s/ DENNIS G. HEINER - --------------------------------------- Dennis G. Heiner	Director	November 24, 1998
/s/ THOMAS H. LENAGH - --------------------------------------- Thomas H. Lenagh	Director	November 24, 1998
/s/ JOEL C. PETERSON - --------------------------------------- Joel C. Peterson	Director	November 24, 1998
/s/ E. KAY STEPP - --------------------------------------- E. Kay Stepp	Director	November 24, 1998
/s/ ROBERT A. WHITMAN - --------------------------------------- Robert A. Whitman	Director	November 24, 1998

Exhibit 13

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

OVERVIEW

Franklin Covey Co. (the "Company") provides products and training services to improve the productivity, leadership and effectiveness of both individuals and organizations. The current strength of the Company's products and training services is a result of the June 1997 merger (the "Merger") between Franklin Quest Co. and the Covey Leadership Center ("Covey"). The Company's best known products include the Franklin Planner(R) as well as the best selling book, THE 7 HABITS OF HIGHLY EFFECTIVE PEOPLE.

The Company derives its sales principally from three areas: (1) product sales, including planners, electronic personal planners, books, tapes and related products sold primarily through retail, catalog and direct channels; (2) training services, including consulting and coaching services, primarily in the areas of leadership, time management, personal improvement and business communication, provided through institutional and public programs; and (3) printing services.

In connection with the Merger, the Company issued 5,030,894 shares of its common stock, valued at $22.16 per share, in exchange for all of the issued and outstanding capital stock of Covey. All outstanding options to purchase Covey common stock were converted into 382,100 options to purchase the Company's common stock, exerciseable at $5.97 per share. In addition, the Company also acquired certain license rights for $27.0 million in cash.

Effective April 1, 1998, the Company acquired King Bear, Inc. ("King Bear"), a Tokyo, Japan based company. King Bear, a former Covey licensee, provides leadership and time management training as well as publishing services. The publishing division of King Bear translated and currently publishes 7 Habits of Highly Effective People in Japanese. The cash purchase price was $5.3 million with additional contingent payments to be made over the next five years based upon the operating results of King Bear over that same period.

On March 1, 1997, the Company acquired Premier Agendas, Inc., and Premier School Agendas, Ltd., located in Bellingham, Washington, and Abbotsford, British Columbia, respectively (collectively, "Premier"). Premier manufactures and markets academic and personal planners for students from kindergarten to college throughout the United States and Canada. Premier's business is seasonal in nature and nearly all of its revenue is recognized during the Company's fourth fiscal quarter. The combined cash purchase price was $23.2 million with additional contingent payments to be paid over the next three years, based upon Premier's operating performance over that same time period. During fiscal 1998, the first contingent payment of $10.3 million was made. At August 31, 1998, $9.9 million was accrued for the second contingent payment.

Effective October 1, 1996, the Company acquired the net assets of TrueNorth Corporation ("TrueNorth"). TrueNorth, a Utah Corporation, is a provider of post-instructional personal coaching to corporations and individuals. TrueNorth develops and delivers one-on-one personalized coaching which is designed to augment the effectiveness and duration of training curricula. The purchase price was $10.0 million with additional contingent payments to be paid over the next five years, based on the operating results of TrueNorth. During fiscal 1998, the first additional payment of $1.6 million was paid. At August 31, 1998, $3.1 million was accrued for the second contingent payment.

Effective December 1, 1995, the Company acquired the assets of Productivity Plus, Inc. ("PPI"), a Phoenix, Arizona based provider of time management products sold primarily to the military. The initial cash purchase price was $7.9 million with additional contingent payments to be paid over the next four years, based upon PPI's operating performance over that same period. During fiscal 1997, the first contingent payment of $3.0 million was paid. No contingent payment was required during fiscal 1998 based upon operating results for the second measurement period. In addition, no future contingent payments for the third measurement period have been accrued as of August 31, 1998.

YEAR 2000 ISSUES

The Company is actively engaged in assessing and correcting potential year 2000 ("Y2K") information system problems. During fiscal 1997, the Company initiated a business reengineering and information system implementation project (the "Project") which affects nearly every aspect of the Company's operations. In an effort to address compliance issues, the scope of the Project was expanded to ensure Y2K compliance for newly acquired software and hardware. The Project has three significant phases that are designed to improve both operating processes and information systems capabilities.

The first phase of the Project included hardware and software for the Company's financial reporting and manufacturing operations. During fiscal 1998, phase one was completed with hardware and software that has been tested and certified as Y2K compliant. Phase two focuses on payroll and human resource applications and is expected to be operational in January 1999. Phase three addresses the "Order to Collect" systems and is expected be completed in various stages through the year 2000. Both phase two and phase three are expected to address and resolve Y2K compliance issues.

State of Readiness

The Company's information systems fall into four general categories: (i) Financial, (ii) Supply Chain, (iii) Order to Collect, and (iv) Office Support.

The Financial system includes the general ledger, accounts payable, sales and use tax calculations, payroll and human resources applications. Phase one of the Project provided systems that are Y2K compliant for the general ledger, accounts payable and sales and use tax calculations. Payroll and human resource systems are the subject of phase two, which is expected to be operational and compliant by January 1999.

The Supply Chain system includes applications for production planning, purchasing and product management. These systems were also an element of phase one and are certified by the software manufacturer as Y2K compliant.

The Company's Order to Collect system includes applications for order entry, seminar registration, retail sales, order fulfillment, order shipping, invoicing and collections. These systems will be affected by phase three of the Project and completion is expected in various stages through the year 2000. As a result, the Order to Collect system has been reviewed for non-compliance. Certain Y2K issues have been noted in the seminar registration and database applications, third-party utilities and services (primarily telephones, electrical, bankcard processing services and shipping services) and the accounts receivable database and invoicing system. The Company is currently working to obtain software upgrades for the critical applications, as well as certification letters from service providers, to mitigate potential exposure in these areas.

The Office Support system includes network hardware and operating systems, desktop and laptop computers and servers. The Company is in the process of evaluating Y2K compliance for these systems and has identified potential compliance issues primarily related to imbedded time clocks. However, since the majority of the Company's hardware has been replaced or upgraded over the past two years, critical systems compliance is not expected to be a major issue.

The Company is also in the process of evaluating non-information systems for Y2K compliance. Non-compliance issues have been identified in connection with computer-controlled printing presses at the Company's printing services divisions. Such Y2K compliance issues are currently being identified in the Company's non-information systems and will be evaluated and prioritized to ensure that critical functions of the business will be operational in the year 2000.

Cost to Address Y2K Issues

As of August 31, 1998, the Company has spent $6.9 million on hardware and $3.1 million for software in connection with the Project. Consultants were hired to implement software modules and improve business processes, but not necessarily to provide specific Y2K remediation services. The Company also has commitments of $6.6 million for purchased software and expects to spend an additional $1.0 million in other direct costs related to the assessment and correction of potential Y2K issues.

Risk of the Company's Y2K Issues

The Company anticipates that the risks related to its information and non-information systems will be mitigated by current efforts being made in conjunction with the Project as well as ongoing assessment and correction programs. However, the primary Y2K risk to the Company's operations is service disruption from third-party providers that supply telephone, electrical, banking and shipping services. Any disruption of these critical services would hinder the Company's ability to receive, process and ship orders. Therefore, efforts are currently underway to obtain Y2K compliance certification from the Company's major service providers.

Contingency Plans

The Company has not yet approved a formal contingency plan for Y2K issues. However, the Company does have well-defined manual processes which could be used in the event of system and service disruption. A formal contingency plan is expected to be completed and approved during fiscal 1999.

RESULTS OF OPERATIONS

The following table sets forth consolidated income statement data and other selected operating data expressed as percentages of total sales.

Income Statement Data:

YEAR ENDED AUGUST 31,	1998	1997	1996
Total sales	100.0%	100.0%	100.0%
Cost of sales	39.1	40.5	44.0
Gross margin	60.9	59.5	56.0
Operating expenses:			
Selling, general and administrative	40.5	37.9	35.1
Depreciation and amortization	6.1	4.8	3.8
Merger related expenses	---	1.3	---
Total operating expenses	46.6	44.0	38.9
Income from operations	14.3	15.5	17.1
Interest income	0.4	0.3	0.6
Interest expense	(1.5)	(0.5)	(0.2)
Total interest income (expense)	(1.1)	(0.2)	0.4
Income before provision for income taxes and change in accounting principle	13.2	15.3	17.5
Provision for income taxes	5.5	6.3	7.2
Income before change in accounting principle	7.7	9.0	10.3
Cumulative effect of change in accounting principle, net of tax	(0.4)	---	---
Net income	7.3%	9.0%	10.3%

Sales Data:

Product	62.9%	69.6%	71.1%
Training	32.0	24.8	21.3
Printing services	5.1	5.6	7.6

FISCAL 1998 COMPARED WITH FISCAL 1997

Sales

Sales for the year ended August 31, 1998, increased $113.3 million, or 26.2%, compared to the prior year. The increase in sales was primarily the result of the Merger, an increase in the number of seminar participants and an increase in the number of planners, agendas and related products sold.

Product sales increased $42.1 million, or 14.0%, compared to the prior year. Overall retail store sales increased $17.1 million, or 14.7%, over the prior year, primarily as a result of 10 new stores that were opened during fiscal 1998. Comparable store sales increased 3.0% compared to the prior year. At the end of fiscal 1998, the Company operated 120 retail stores. School agenda sales through Premier increased $10.3 million, or 27.2%, compared to the prior year primarily due to increased unit sales in the U.S. The remaining product sales increase of $22.8 million, or 19.2%, over the prior year was due to increases in catalog, international, corporate wholesale and book royalties resulting from the Merger. Sales increases during the year were offset by a decrease in sales of $9.8 million, or 40.9%, due to declining network marketing business and declining government sales at PPI. Price increases had no material effect on increased sales between the periods.

Training sales increased $67.5 million, or 62.8%, as compared to the prior year primarily from additional domestic and international training sales related to the Merger, as well as increased personal coaching sales.

Printing services sales increased $3.7 million, or 15.2%, compared to the prior year due to increased commercial sales at the Company's printing services subsidiary and Premier's printing facility as well as King Bear's publishing division which was purchased during fiscal 1998. Gross Margin

Gross margin consists of sales less cost of sales. Cost of sales includes materials used in the production of planners and related products, assembly and manufacturing labor costs, commissions of training consultants, direct costs of conducting seminars, freight and certain other overhead costs. Gross margin may be affected by, among other things, prices of materials, labor rates, product mix, changes in product discount levels, production efficiency, training consultant commissions and freight costs. Gross margin was 60.9% compared to 59.5% for the prior year. The increase was primarily due to higher margin training sales resulting from the Merger. Generally, training sales have a higher gross margin than product sales, and during fiscal 1998, training sales, as percentage of total sales, increased to 32.0% of total sales compared to 24.8% in the prior year.

Operating Expenses

Operating expenses include selling, general and administrative expenses as well as depreciation and amortization charges that occur in the normal course of business. Selling, general and administrative expenses increased to 40.5% of sales compared to 37.9% of sales during the prior year. The increase reflects the higher operating expenses, as a percentage of sales, of Covey, a full year of Premier operating expenses, the addition of 10 new retail stores and additional direct operations in Japan, Australia and New Zealand. Premier has seasonal sales which occur primarily in the Company's fourth fiscal quarter, but continues to incur selling, general and administrative expenses during the entire year.

Depreciation expense increased $6.0 million over the prior year due to purchases of computer hardware and software in connection with the Project, the addition of new printing presses and leasehold improvements related to the opening of new retail stores. Amortization charges increased $6.2 million compared to the prior year due to the amortization of intangibles acquired in connection with the Merger and contingent payments made to Premier and TrueNorth during fiscal 1998.

Income Taxes

Income taxes were accrued using an effective rate of 41.5% for fiscal 1998 compared to 41.4% for the prior year. The increase was due primarily to additional non-deductible goodwill generated from the Merger and certain acquisitions.

Change in Accounting Principle

During fiscal 1998, the Emerging Issues Task Force (the "EITF") of the Financial Accounting Standards Board issued consensus ruling 97-13 which specifies the accounting treatment of certain business reengineering and information technology implementation costs. In connection with the Project, the Company has capitalized costs in accordance with generally accepted accounting principles. Certain previously capitalized costs of the Project were written off in accordance with EITF 97-13 as a cumulative adjustment during the Company's first quarter of fiscal 1998. The cumulative amount written off in fiscal 1998 was $2.1 million, net of tax.

FISCAL 1997 COMPARED WITH FISCAL 1996

Sales

Sales for the year ended August 31, 1997, increased $101.3 million, or 30.5%, over the same period in 1996 as a result of the acquisitions of Premier and TrueNorth, the Merger, an increase in the number of planners and related products sold and an increase in the number of time management seminar participants. Product sales, (direct product sales, catalog sales and retail store sales) increases of $65.6 million accounted for 65% of the increase and training sales increases of $36.6 million accounted for 36% of the increase, while printing services sales decreased by $1.0 million, causing an offsetting decrease in sales of 1%. Price increases had no material effect on increased sales between the periods. Retail store sales increased $16.1 million over the previous fiscal year as a result of 20 additional store openings and included an increase of 7% in comparable store sales. The Merger and the two acquisitions completed during fiscal 1997 accounted for $76.1 million of the increase in total revenues.

Gross Margin

Gross margin was 59.5% of revenues for the year ended August 31, 1997, compared to 56.0% for the prior year. For fiscal 1997, Covey, Premier and TrueNorth all had gross profit margins, as a percentage of sales, that were larger than those of the Company taken as a whole. This was caused by differing markups on their products and the sales mix between products and services. Excluding the effect of the Merger and these two acquisitions during fiscal 1997, gross margin for the year would have been 57.9%.

Operating Expenses

Selling, general and administrative expenses increased 2.8% as a percentage of sales during the year ended August 31, 1997 (37.9% compared to 35.1% in fiscal 1996). The increase reflects the higher operating expenses, as a percentage of sales, of Covey and TrueNorth, as well as overall increases in operating expenses for the Company as a whole.

Depreciation charges were higher by $3.4 million. Of this amount, $1.2 million of the increase was a result of assets acquired in the Merger and the acquisition of TrueNorth and Premier. In addition, 20 new retail stores, new information systems and related equipment also contributed to the increase. Amortization charges increased by $4.8 million as a result of the amortization of intangible assets acquired in the Merger and acquisition activity during the fiscal year.

Income Taxes

Income taxes were accrued using an effective rate of 41.4% for fiscal 1997 compared to 41.2% for the prior fiscal year. The increase was due primarily to non-deductible goodwill generated from the Merger and certain other acquisitions.

QUARTERLY RESULTS

The following tables set forth selected unaudited quarterly consolidated financial data for the most recent eight quarters. The quarterly consolidated financial data reflects, in the opinion of Management, all adjustments necessary to fairly present the results of operations for such periods. Results of any one or more quarters are not necessarily indicative of continuing trends.

Quarterly Financial Information:

YEAR ENDED AUGUST 31, 1998

	Q1	Q2	Q3	Q4
In thousands, except per share amounts				
Sales	$ 143,919	$138,564	$107,542	$156,587
Gross margin	87,269	85,068	64,814	95,573
Income before provision for income taxes	23,267	21,303	803	26,658
Income before accounting change	13,611	12,462	470	15,595
Cumulative effect of accounting change, net of tax	(2,080)			
Net income	11,531	12,462	470	15,595
Diluted income from continuing operations per share	.53	.49	.02	.67
Diluted net income per share	.45	.49	.02	.67

YEAR ENDED AUGUST 31, 1997

	Q1	Q2	Q3	Q4
In thousands, except per share amounts				
Sales	$102,377	$105,958	$79,840	$145,097
Gross margin	59,102	62,892	46,228	89,448
Income before provision for income taxes	21,796	21,831	5,234	17,502
Net income	13,024	13,044	3,127	9,670
Diluted net income per share	.62	.63	.15	.37

The Company's quarterly results of operations reflect seasonal trends that are primarily the result of customers who renew their Franklin Planners on a calendar year basis. Training sales are moderately seasonal because of the timing of corporate training which typically is not scheduled during holiday and vacation periods. In the Company's experience, catalog sales, retail store sales and income tend to be lower during the third quarter of each fiscal year. The seasonal nature of the Company's operations has historically resulted in higher sales and significantly higher operating margins during the first two quarters, with declines in sales and income occurring in the third quarter of each fiscal year. The Company believes that the seasonal patterns of sales and earnings for the first three quarters will continue as in the past. As a result of the acquisition of Premier, which has seasonal sales occurring primarily in the fourth quarter, the Company has strengthened its sales and income during the fourth quarter.

During the fourth quarter of fiscal 1997, the Company recorded a charge for integration costs related to the Merger. The amount of the charge was $3.2 million, net of tax.

Quarterly fluctuations may also be affected by other factors including the addition of new institutional customers, the introduction of new products, the timing of large institutional orders and the opening of new retail stores.

LIQUIDITY AND CAPITAL RESOURCES

Historically, the Company's primary sources of capital have been net cash provided by operating activities, long-term borrowings and proceeds from the sale of common stock. Working capital requirements have also been financed through short-term borrowing and line-of-credit financing.

Net cash provided by operating activities during fiscal years 1998 and 1997 was $74.1 million and $45.7 million, respectively. During fiscal 1998, adjustments to net income included $38.6 million of depreciation and amortization charges. The Company used $27.4 million to finance an increase in accounts receivable from seasonally high fourth quarter sales by Premier, an increase in other assets and a decrease in accounts payable and accrued liabilities. Approximately $20.3 million was provided by a decrease in inventory and an increase in income taxes payable. In fiscal 1997, adjustments to net income for depreciation and amortization totaled $23.6 million, while $33.8 million was used to increase accounts receivable, inventory and other assets. In addition, $19.3 million was provided by an increase in accounts payable, accrued liabilities and income taxes payable during fiscal 1997.

Net cash used for investing activities during fiscals 1998 and 1997 was $43.8 million and $80.0 million, respectively. In fiscal 1998, $11.9 million was paid as contingent payments in connection with certain acquisitions. An additional $4.9 million of net cash was paid to acquire King Bear. During fiscal 1998, the Company sold its Institute of Fitness and certain consulting business units. The net cash received for these divestitures was $12.1 million. During fiscal 1997, $33.2 million of cash was used to purchase TrueNorth and Premier. In addition, $27.0 million of cash was used to acquire license rights in connection with the Merger. Funds invested in property and equipment during fiscal years 1998 and 1997 were $39.2 million and $20.2 million, respectively, and included new store leasehold improvements, computer hardware and software purchased in connection with the Project, printing presses and manufacturing equipment.

Going forward, the Company will incur costs necessary for additional retail store buildouts and related inventory, retail store renovations, expansion of distribution facilities and normal equipment purchases related to the growth of the business, all of which are expected to be financed from cash provided by operations and available lines of credit. During fiscal 1997, the Company commenced spending related to its Project and expects to incur additional costs through 2000 to complete the Project. The remaining costs of the Project are expected to be provided by cash flows from operations and available lines of credit.

During fiscal 1998, financing activities used cash of $21.6 million resulting from the net of $120.0 million in proceeds from the issuance of unsecured senior notes and borrowings on the Company's long-term line of credit, payments of $87.2 million used to repay line of credit borrowings and other debt instruments and $57.0 million used to purchase shares of its common stock. During fiscal 1997, financing activities provided net proceeds of $30.7 million. The primary source of cash during fiscal 1997 was $64.4 million in proceeds from long-term debt and the line of credit, while the primary use of cash was purchases of treasury stock that totaled $36.4 million for the year.

Management anticipates that its existing capital resources will enable it to maintain its current level of operations and its planned internal growth for the foreseeable future. This includes any purchase of Company common stock that may be made under authorized purchase plans. At August 31, 1998, the Company had authorization to purchase 1,107,906 shares of its common stock. Subsequent to August 31, 1998, the Company's Board of Directors approved the purchase of an additional 2,000,000 shares.

The Company has unsecured bank lines of credit available for working capital needs totaling $89.0 million at August 31, 1998. As of August 31, 1998, the Company had $35.0 million outstanding on a $75.0 million line of credit with interest at the lesser of the prime rate less .75% or the LIBOR rate plus 1.00%. The $75.0 million line of credit agreement expires in October 2001 and requires the maintenance of certain financial ratios and working capital levels. As of August 31, 1998, the Company was in compliance with these borrowing covenants. The Company also has a $14.0 million short-term line of credit with interest at .25% below the prevailing prime rate. The outstanding balance on the $14.0 million line of credit was $3.6 million at August 31, 1998.

During fiscal 1998, the Company privately issued $85.0 million of unsecured senior notes payable (the "Notes Payable"). The Notes Payable are due May 4, 2008 and bear interest at a fixed rate of 6.6%. Interest is due semi-annually beginning on November 4, 1998 with principal payments of $17.0 million due annually beginning May 4, 2004. In addition, the Notes Payable purchase agreement requires the Company to maintain certain financial ratios and net worth levels until the Notes Payable are paid in full. At August 31, 1998, the Company was in compliance with the terms of the agreement.

The Company is registered in all states that have a sales tax and collects and remits sales or use tax on retail sales made through its stores and catalog sales. Compliance with environmental laws or regulations has not had a material effect on the Company's operations. Inflation has not had a material effect on the Company's operations. However, in the future inflation may have an impact on the price of materials used in planners and related products, including paper and leather materials. The Company may not be able to pass on such increased costs to its customers.

"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 uncertanties 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, Y2K issues, 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, the business risks described in the Company's Form 10-K Report for the year ended August 31, 1998 and elsewhere in the Company's filings with the Securities and Exchange Commission.

FRANKLIN COVEY CO.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Franklin Covey Co.:

We have audited the accompanying consolidated balance sheets of Franklin Covey Co. (a Utah corporation) and subsidiaries as of August 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended August 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Franklin Covey Co. and subsidiaries as of August 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 1998 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Salt Lake City, Utah
September 25, 1998

FRANKLIN COVEY CO.
CONSOLIDATED BALANCE SHEETS

AUGUST 31,	1998	1997
In thousands, except share data		
ASSETS		
Current assets:		
Cash and cash equivalents	$ 27,760	$ 20,389
Accounts receivable, less allowance for doubtful accounts of $2,840 and $1,931	83,621	71,840
Inventories	47,799	55,748
Income taxes receivable		6,094
Other assets	16,113	15,672
Total current assets	175,293	169,743
Property and equipment, net	127,268	119,768
Goodwill and other intangibles, net	270,202	269,219
Other assets	24,514	13,457
	$ 597,277	$ 572,187
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 27,417	$ 31,611
Accrued compensation	12,323	13,349
Accrued acquisition earnouts	12,960	9,000
Other accrued liabilities	30,403	28,324
Income taxes payable	5,900	
Current portion of long-term debt	3,562	3,644
Current portion of capital lease obligations	788	975
Total current liabilities	93,353	86,903
Line of credit	35,000	86,000
Long-term debt, less current portion	89,929	5,870
Deferred income taxes	35,857	35,735
Capital lease obligations, less current portion	1,484	2,274
Total liabilities	255,623	216,782
Commitments and contingencies (Notes 1, 5, 6, 8 and 16)		
Shareholders' equity:		
Preferred stock, no par value; 4,000,000 shares authorized, no shares issued or outstanding		
Common stock, $.05 par value; 40,000,000 shares authorized, 27,055,894 shares issued	1,353	1,353
Additional paid-in capital	238,052	239,699
Retained earnings	209,772	169,714
Deferred compensation	(843)	(1,495)
Cumulative translation adjustment	(2,250)	(934)
Treasury stock at cost, 4,813,242 and 2,373,223 shares	(104,430)	(52,932)
Total shareholders' equity	341,654	355,405
	$ 597,277	$ 572,187

See accompanying notes to consolidated financial statements.

FRANKLIN COVEY CO.
CONSOLIDATED STATEMENTS OF INCOME

YEAR ENDED AUGUST 31,	1998	1997	1996
In thousands, except per share data			
Sales:			
Product	$ 343,832	$ 301,687	$ 236,039
Training	174,927	107,417	70,812
Printing services	27,853	24,168	25,155
Total sales	546,612	433,272	332,006
Cost of sales:			
Product	148,212	126,419	104,486
Training	44,153	31,283	22,475
Printing services	21,523	17,900	19,261
Total cost of sales	213,888	175,602	146,222
Gross margin	332,724	257,670	185,784
Selling, general and administrative	221,303	164,057	116,362
Depreciation and amortization	33,028	20,800	12,739
Merger and integration costs		5,450	
Income from operations	78,393	67,363	56,683
Interest income	1,954	1,344	2,188
Interest expense	(8,316)	(2,344)	(630)
Income before provision for income taxes and cumulative effect of accounting change	72,031	66,363	58,241
Provision for income taxes	29,893	27,498	24,002
Income before cumulative effect of accounting change	42,138	38,865	34,239
Cumulative effect of accounting change, net of tax (Note 13)	(2,080)		
Net income	$ 40,058	$ 38,865	$ 34,239
Income from continuing operations per share:			
Basic	$ 1.75	$ 1.83	$ 1.61
Diluted	1.70	1.76	1.53
Cumulative effect of accounting change, net of tax, per share:			
Basic	(.09)		
Diluted	(.08)		
Net income per share:			
Basic	$ 1.66	$ 1.83	$ 1.61
Diluted	1.62	1.76	1.53
Weighted average number of common and common equivalent shares:			
Basic	24,091	21,201	21,298
Diluted	24,726	22,117	22,328

See accompanying notes to consolidated financial statements.

FRANKLIN COVEY CO.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

In thousands	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	DEFERRED COMPENSATION	CUMULATIVE TRANSLATION ADJUSTMENT	TREASURY STOCK SHARES	TREASURY STOCK AMOUNT	TOTAL SHARE-HOLDERS' EQUITY
Balance at August 31, 1995	22,025	$ 1,101	$ 131,228	$ 96,610	$ (740)	$ (711)	(254)	$ (3,146)	$ 224,342
Tax benefit from exercise of affiliate stock options			287						287
Issuance of common stock from treasury			654				132	371	1,025
Purchase of treasury shares							(1,375)	(28,119)	(28,119
Deferred compensation			790		(500)				290
Cumulative translation adjustment						(229)			(229
Net income				34,239					34,239
Balance at August 31, 1996	22,025	1,101	132,959	130,849	(1,240)	(940)	(1,497)	(30,894)	231,835
Issuance of common stock in connection with merger	5,031	252	111,246						111,498
Value of options granted in merger			4,331						4,331
Tax benefit from exercise of affiliate stock options			1,654						1,654
Issuance of common stock from treasury			(11,340)				844	14,340	3,000
Purchase of treasury shares							(1,720)	(36,378)	(36,378)
Deferred compensation			849		(255)				594
Cumulative translation adjustment						6			6
Net income				38,865					38,865
Balance at August 31, 1997	27,056	1,353	239,699	169,714	(1,495)	(934)	(2,373)	(52,932)	355,405
Tax benefit from exercise of affiliate stock options			266						266
Issuance of common stock from treasury			(1,913)				247	5,515	3,602
Purchase of treasury shares							(2,687)	(57,01)	(57,013)
Deferred compensation					652				652
Cumulative translation adjustment						(1,316)			(1,316)
Net income				40,058					40,058
Balance at August 31, 1998	27,056	$ 1,353	$ 238,052	$ 209,772	$ (843)	$ (2,250)	(4,813)	$(104,430)	$ 341,654

See accompanying notes to consolidated financial statements.

FRANKLIN COVEY CO.
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED AUGUST 31, In thousands	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 40,058	$ 38,865	$ 34,239
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	38,626	23,576	16,217
Provision for losses on accounts receivable	890	349	244
Deferred income taxes	613	(3,178)	(756)
Deferred compensation	652	594	290
Loss on sale of assets	317	8	187
Changes in assets and liabilities, net of effects from acquisitions:			
Decrease (increase) in accounts receivable	(10,885)	(19,332)	1,671
Decrease (increase) in inventories	8,061	(1,068)	1,889
Increase in other assets	(12,044)	(13,397)	(1,026)
Increase (decrease) in accounts payable and accrued liabilities	(4,495)	18,783	(3,515)
Increase (decrease) in income taxes	12,261	465	(4,049)
Net cash provided by operating activities	74,054	45,665	45,391
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of businesses	(16,786)	(33,188)	(7,608)
Disposal of businesses	12,126		
Purchase of license rights		(27,000)	
Purchases of property and equipment, net of effects from acquisitions	(39,239)	(20,189)	(19,463)
Proceeds from sale of property and equipment	84	366	148
Net cash used for investing activities	(43,815)	(80,011)	(26,923)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term borrowings		3,256	316
Payments on short-term borrowings	(889)	(398)	
Proceeds from long-term debt and line of credit, net of effects from acquisitions	119,969	64,419	121
Payments on long-term debt and capital leases	(87,221)	(3,211)	(2,834)
Purchases of common stock for treasury	(57,013)	(36,378)	(28,119)
Proceeds from treasury stock issuances	3,602	3,000	1,312
Net cash (used for) provided by financing activities	(21,552)	30,688	(29,204)
Effect of foreign exchange rates	(1,316)	6	(229)
Net increase (decrease) in cash and cash equivalents	7,371	(3,652)	(10,965)
Cash and cash equivalents at beginning of year	20,389	24,041	35,006
Cash and cash equivalents at end of year	$ 27,760	$ 20,389	$ 24,041

See accompanying notes to consolidated financial statements.

FRANKLIN COVEY CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Franklin Covey Co. (the "Company") provides training seminars and manufactures and distributes products designed to improve organization and individual effectiveness through proven leadership and productivity principles. The Company's best known products include the Franklin Planner as well as the best-selling book, 7 Habits of Highly Effective People. The Company operates principally in the education and personal planner industries.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Pervasiveness of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. As of August 31, 1998, the Company had demand deposits at various banks in excess of the $100,000 limit for insurance by the Federal Deposit Insurance Corporation.

Inventories

Inventories are stated at the lower of cost or market, cost being determined using the first-in, first-out method.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the expected useful lives of the assets as follows:

Description	Useful Lives
Machinery and equipment	3-7 years
Furniture and fixtures	5-7 years
Buildings and improvements	15-39 years

Expenditures for maintenance and repairs are charged to expense as incurred. Gains and losses on sale of property and equipment are recorded in current operations.

Long-Lived Assets

The Company evaluates its long-lived assets at each balance sheet date to determine whether events and circumstances have occurred which indicate possible impairment. Based upon its most recent analysis, the Company believes that no material impairment of long-lived assets exists at August 31, 1998.

Other Assets

The Company is currently involved in a business reengineering and information systems implementation project (the "Project"). Certain costs of the Project have been capitalized in accordance with authoritative accounting pronouncements (see Note 13). At August 31, 1998, the Company had capitalized $17.9 million of Project costs that are classified as other assets. As phases of the Project are completed and placed into service, the associated costs will be reclassified to property and equipment or intangible assets, as appropriate, and depreciated or amortized over a five-year period.

Foreign Currency Translation and Transactions

The balance sheet accounts of the Company's foreign subsidiaries are translated into U.S. dollars using the current exchange rate. Revenues and expenses are translated using an average exchange rate. The resulting translation gains or losses are recorded as a cumulative translation adjustment in shareholders' equity. Transaction gains and losses are reported in current operations.

Revenue Recognition

Revenue is recognized upon shipment of product and presentation of training seminars. As part of the training seminar, the Company provides a seminar kit to each participant which may include a Franklin Planner, manuals and other training materials.

Pre-Opening Costs

Pre-opening costs associated with new retail stores are charged to expense as incurred. These amounts were not significant for the periods presented in the accompanying consolidated financial statements.

Income Taxes

The Company recognizes a liability or asset for the deferred tax consequences of temporary differences between the tax bases of assets or liabilities and their reported amounts in the financial statements.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade receivables. In the normal course of business, the Company provides credit terms to its customers. Accordingly, the Company performs ongoing credit evaluations of its customers and maintains allowances for possible losses which, when realized, have been within the range of management's expectations.

Fair Value of Financial Instruments

The book value of the Company's financial instruments approximates fair value. The estimated fair values have been determined using appropriate market information and valuation methodologies.

Recent Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards for the reporting and display of comprehensive income and its components. The statement requires an "all-inclusive" approach which specifies that all revenues, expenses, gains and losses recognized during the period be reported in income, regardless of whether they are considered to be results of operations of the period. This statement is effective for fiscal years beginning after December 15, 1997, and accordingly, the Company will adopt SFAS No. 130 in fiscal 1999. The Company believes it will not have a material impact on its financial statements.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 requires that public business enterprises report certain information about operating segments in complete sets of financial statements. The statement specifies disclosure requirements about the products and services of a company, the geographic areas in which it operates, and their major customers. SFAS No. 131 is effective for fiscal years beginning after December 15, 1997, and accordingly, the Company will adopt this statement in fiscal 1999.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards requiring that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at fair value. The statement also requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. This statement is effective for fiscal years beginning after June 15, 1999 and is not expected to have a material impact on the Company's financial statements.

Reclassifications

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

2. INVENTORIES

Inventories are comprised of the following (in thousands):

AUGUST 31,	1998	1997
Finished goods	$ 32,141	$ 40,955
Work-in-process	5,261	7,286
Raw materials	10,397	7,507
	$ 47,799	$ 55,748

3. PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following (in thousands):

AUGUST 31,	1998	1997
Land and improvements	$ 10,382	$ 11,301
Buildings	42,797	50,978
Machinery and equipment	91,841	68,106
Furniture and fixtures	52,128	45,508
	197,148	175,893
Less accumulated depreciation	(69,880)	(56,125)
	$ 127,268	$ 119,768

Certain real estate represents collateral for debt obligations (see Note 5).

4. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets consist of the following (in thousands):

AUGUST 31,	1998	1997
Goodwill	$ 115,290	$ 88,685
License rights	27,000	27,000
Curriculum rights	62,685	64,019
Trade names and other	98,476	109,375
	303,451	289,079
Less accumulated amortization	(33,249)	(19,860)
	$ 270,202	$ 269,219

Goodwill and other intangible assets are amortized on a straight-line basis over the following estimated useful lives:

	Useful Lives
Goodwill	5-30 years
License rights	40 years
Curriculum rights	14-30 years
Trade names and other	4-40 years

At each balance sheet date, the Company evaluates its goodwill and other intangible assets to determine whether events or circumstances may have occurred which indicate possible impairment. Based upon its most recent analysis, the Company believes that no material impairment of goodwill or other intangibles exists at August 31, 1998.

5. DEBT

Lines of Credit

The Company has unsecured bank lines of credit available for working capital needs totaling $89.0 million at August 31, 1998. On August 31, 1998, the Company had $35.0 million outstanding on a $75.0 million line of credit with interest at the lesser of the prime rate less .75% or the LIBOR rate plus 1.00%. The $75.0 million line of credit agreement expires in October 2001. The Company also has a $14.0 million short-term line of credit with interest at .25% below the prevailing prime rate. At August 31, 1998, $3.6 million was outstanding on this line of credit which expires in January 1999. The short-term line of credit is reported as a component of other accrued liabilities.

The lines of credit require the Company to maintain certain financial ratios and working capital levels. At August 31, 1998, the Company was in compliance with the terms of the agreements. Commitment fees associated with the lines of credit were immaterial for fiscal years 1998 and 1997.

Long-Term Debt

Long-term debt is comprised of the following (in thousands):

AUGUST 31,	1998	1997
	>	
Senior unsecured notes payable with interest at 6.6% due semi-annually, principal payments of $17,000 due annually May 2004 through 2008	$ 85,000	
Note payable on demand, plus interest at 8.0%	1,749	$ 2,834
Mortgage payable in monthly installments of $18 including interest at 8.5% through August 2016, secured by real estate	1,769	1,834
Note payable to bank, payable in monthly installments of $23 plus interest at prime plus .5% payable through September 2002, secured by real estate	1,152	1,432
Note payable due in January 1999, plus interest at 6.0%	1,000	1,000
Note payable to a Japanese bank for YEN 140,000 due April 2000 plus interest at 2.7%	996	
Mortgage payable in monthly installments of $8 including interest at 9.9% through October 2014, secured by real estate	728	747
Other mortgages and notes, payable in monthly installments, interest ranging from 2.0% to 9.7%, due at various dates through 2003, secured by equipment, inventories and accounts receivable	1,097	1,667
	93,491	9,514
Less current portion	(3,562)	(3,644)
Long-term debt, less current portion	$ 89,929	$ 5,870

The $85.0 million senior unsecured notes payable require the Company to maintain certain financial ratios and net worth levels until the notes are paid in full. At August 31, 1998, the Company was in compliance with the terms of the notes.

In connection with the issuance of the $85.0 million notes payable, the Company capitalized $0.6 million of loan fees which are being amortized over the term of the notes payable. The loan fees are classified as other assets on the accompanying balance sheet.

Future maturities of long-term debt at August 31, 1998 are as follows (in thousands):

YEAR ENDING AUGUST 31,	
1999	$ 3,562
2000	1,765
2001	566
2002	474
2003	141
Thereafter	86,983
	$ 93,491

6. LEASE OBLIGATIONS

Capital Leases

Future minimum lease payments for equipment held under capital lease arrangements as of August 31, 1998 are as follows (in thousands):

YEAR ENDING AUGUST 31,	
1999	$ 932
2000	658
2001	592
2002	393
Total future minimum leas payments	2,575
Less amount representing interest	(303)
Present value of future minimum lease payments	2,272
Less current portion	(788)
	$ 1,484

Total assets held under capital lease arrangements were $4.1 million with accumulated amortization of $1.4 million as of August 31, 1998. Amortization of capital lease assets is included in depreciation and amortization expense.

Operating Leases

The Company leases certain retail store and office locations under noncancelable operating lease agreements with remaining terms of one to eight years. The following summarizes future minimum lease payments under operating leases at August 31, 1998 (in thousands):

YEAR ENDING AUGUST 31,	
1999	$ 12,039
2000	10,120
2001	7,749
2002	6,915
2003	6,425
Thereafter	18,792
	$ 62,040

Rental expense for leases under operating lease terms was $16.8 million, $11.7 million and $8.9 million for the years ended August 31, 1998, 1997 and 1996, respectively.

7. ADVERTISING

Costs for newspaper, television, radio and other advertising are expensed as incurred. Direct response advertising costs consist primarily of printing and mailing costs for catalogs and seminar mailers that are charged to expense over the period of projected benefit, not to exceed twelve months. Total advertising costs were $26.7 million, $18.9 million and $15.6 million for the years ended August 31, 1998, 1997 and 1996, respectively. Prepaid catalog and seminar mailer costs reported in other current assets were $4.4 million and $4.3 million at August 31, 1998 and 1997, respectively.

8. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

At August 31, 1998, the Company had purchase commitments for information systems hardware, software, licenses, support and education totaling approximately $9.0 million.

Legal Matters

The Company is the subject of certain legal actions, which it considers routine to its business activities. As of August 31, 1998, management believes that, after discussion with its legal counsel, any potential liability to the Company under such actions will not materially affect the Company's financial position or results of operations.

9. RELATED PARTY TRANSACTIONS

During fiscal years 1998 and 1997, the Company purchased 500,000 and 750,000 shares of its common stock for $12.0 million and $18.0 million in cash, respectively, from the Chairman of the Board of Directors. All shares were purchased at the existing fair market value on the dates of the transactions.

During the years ended August 31, 1998 and 1997, the Company purchased 100,000 and 110,000 shares of its common stock for $2.5 million and $2.4 million in cash, respectively, from a former officer and director of the Company. The shares were purchased at the existing fair market value on the dates of the transactions.

The Company purchased 194,000 shares of its common stock from a director of the Company for $3.7 million in cash during the year ended August 31, 1998. Also during fiscal 1998, the Company purchased 57,094 shares of its common stock from a former officer of the Company for $1.1 million. The foregoing shares were purchased at the existing fair market value on the dates of the transactions.

Premier Agendas ("Premier"), a subsidiary of the Company, had trade accounts payable to various companies which are partially owned by certain former owners of Premier totaling $1.5 million and $3.0 million at August 31, 1998 and 1997, respectively. In addition, Premier had notes payable to key employees totaling $1.8 million and $2.8 million at August 31, 1998 and 1997 (see Note 5). The notes payable were used for working capital, are due upon demand, and have interest rates which approximate prevailing market rates.

The Company, under a long-term agreement, leases buildings from a partnership which is partially owned by the Co-Chairman of the Board of Directors and certain officers of the Company. Rental expense paid to the partnership totaled approximately $1.8 million and $0.4 million during fiscal years 1998 and 1997, respectively.

The Company pays the Co-Chairman of the Board of Directors a percentage of the proceeds received for seminars that are presented by the Co-Chairman. During the years ended August 31, 1998 and 1997, the Company paid approximately $2.4 million and $0.2 million, respectively, for such seminars.

During fiscal 1998, the Company sold one of its consulting units to a group of former employees for $1.6 million. The amount is payable to the Company in six annual installments from September 1998 through 2003. The Company also granted certain employees the option to purchase another consulting unit of the Company for $1.2 million payable to the Company in equal annual installments over a ten-year period commencing January 2001. Such option becomes exerciseable upon the achievement of certain financial thresholds over the next two years.

10. CAPITAL TRANSACTIONS

Capital Stock

The Company's Board of Directors and shareholders have authorized 4,000,000 shares of preferred stock, no par value, of which none has been issued. The Board of Directors is authorized to determine the designation, powers, preferences, rights and limitations of any series of preferred stock and the number of shares constituting any such series.

Treasury Stock

The Company sold 247,069, 844,342 and 132,021 shares of its common stock held in treasury as a result of the exercise of options and the purchase of shares under the Company's employee stock purchase plan for the years ended August 31, 1998, 1997 and 1996, respectively. These shares were sold for a total of approximately $3.6 million, $4.9 million and $1.0 million and had a cost of approximately $5.5 million, $14.3 million and $0.4 million for the years ended August 31, 1998, 1997 and 1996, respectively. In March 1998, March 1996 and September 1996, the Company's Board of Directors approved the purchase of up to 3,000,000 shares, 1,000,000 shares and 2,000,000 shares, respectively, of the Company's common stock. During fiscal years 1998, 1997 and 1996, the Company purchased 2,687,000 shares at a cost of $57.0 million, 1,720,000 shares at a cost of $36.4 million and 1,375,000 shares at a cost of $28.1 million, respectively.

Subsequent to August 31, 1998, the Company's Board of Directors approved the purchase of an additional 2,000,000 shares of the Company's common stock.

Tax Benefit from Exercise of Affiliate Stock Options

During fiscal years 1998, 1997 and 1996, certain employees exercised affiliate stock options (nonqualified stock options received from principal shareholders of the Company) which resulted in tax benefits to the Company of $0.3 million, $1.7 million and $0.3 million, respectively, which were recorded as increases to additional paid-in capital.

Deferred Compensation

Deferred compensation represents restricted stock granted to key executives. The stock vests in full four years from the date of grant and was recorded at the fair market value at the date of grant. Compensation expense is recognized ratably over the four-year period.

Stock Options

The Company's Board of Directors has approved an incentive stock option plan whereby 5,000,000 shares of common stock have been reserved for issuance to key employees at a price not less than the fair market value of the Company's common stock at the date of grant. The term, not to exceed ten years, and exercise period of each incentive stock option awarded under the plan are determined by a committee appointed by the Company's Board of Directors. At August 31, 1998, shares available for granting under the incentive stock option plan were 1,074,981.

A summary of nonqualified and incentive stock option activity is set forth below:

	Number of Options	Weighted Avg. Exercise Price
Outstanding at August 31, 1995	2,965,429	$ 17.76
Granted	838,500	19.19
Exercised	(41,950)	2.32
Forfeited	(23,825)	27.72
Outstanding at August 31, 1996	3,738,154	18.36
Granted:		
At market value	747,340	19.03
In connection with the Merger	382,100	5.97
Exercised	(838,092)	4.32
Forfeited	(127,574)	22.91
Outstanding at August 31, 1997	3,901,928	20.24
Granted	434,800	23.64
Exercised	(200,024)	13.62
Forfeited	(466,974)	23.72
Outstanding at August 31, 1998	3,669,730	$ 21.89

Options exerciseable at August 31, 1998, 1997 and 1996 were 2,261,935, 2,269,399 and 2,214,073 and had weighted average exercise prices of $22.65, $22.04 and $15.40, respectively.

The Company applies Accounting Principles Board ("APB") Opinion 25 and related interpretations in accounting for its plans. Accordingly, no compensation expense has been recognized for its stock option plans or employee stock purchase plan. Had compensation cost for the Company's stock option plans and employee stock purchase plan been determined in accordance with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below (in thousands, except per share data):

YEAR ENDED AUGUST 31,	1998	1997	1996
Net income as reported	$ 40,058	$ 38,865	$ 34,239
Net income pro forma	34,978	30,514	30,410
Diluted earnings per share as reported	1.62	1.76	1.53
Diluted earnings per share pro forma	1.41	1.38	1.36

Because the SFAS No. 123 method of accounting has not been applied to options granted prior to September 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

The following information applies to options outstanding at August 31, 1998:

- Option shares outstanding of 413,972 have exercise prices between $1.11 and $11.83, with a weighted average exercise price of $3.29 and a weighted average remaining contractual life of 4.6 years of which 170,891 are exercisable at August 31, 1998.

- A total of 2,413,883 options have exercise prices between $15.50 and $26.82, with a weighted average exercise price of $20.41 and a weighted average remaining contractual life of 7.0 years of which 1,260,419 are exercisable at August 31, 1998.

- The remaining 841,875 options outstanding have exercise prices between $29.38 and $34.50, with a weighted average exercise price of $34.21 and a weighted average remaining contractual life of 5.7 years of which 830,625 are exercisable at August 31, 1998.

The weighted average fair value of options granted under the Company's stock option plans during the year ended August 31, 1998 was $11.17. The weighted average fair value of options granted under the Company's stock option plans during the year ended August 31, 1997 was estimated at $11.23 for options granted at the market price and $15.08 for options granted below the market price in connection with the Merger (see Note 16). The weighted average fair value of options granted during the year ended August 31, 1996 was $10.73.

The Black-Scholes option-pricing model was used to calculate the weighted average fair value of options using the following assumptions for grants in fiscal years 1998, 1997 and 1996:

YEAR ENDED AUGUST 31	1998	1997	1996
Dividend yield	none	none	none
Volatility	57.7%	61.5%	61.5%
Expected life (years)	1.2	2.5	2.5
Risk free rate of return	5.4%	6.1%	5.9%

The estimated fair value of options granted is subject to the assumptions made and if the assumptions were to change, the estimated fair value amounts could be significantly different. The weighted average fair value of options exercised during fiscal years 1998, 1997 and 1996 was $11.49, $4.41 and $2.44, respectively.

11. EMPLOYEE BENEFIT PLANS

Profit Sharing Plans

The Company has defined contribution profit sharing plans that qualify under Section 401(k) of the Internal Revenue Code. The plans provide retirement benefits for employees meeting minimum age and service requirements. Participants may contribute up to 15% of their gross wages, subject to certain limitations. The plans provide for matching contributions by the Company. The matching contributions expensed in the years ended August 31, 1998, 1997 and 1996 were approximately $1.7 million, $1.4 million and $1.2 million, respectively.

Employee Stock Purchase Plan

The Company has an employee stock purchase plan which reserved up to 300,000 shares of common stock for issuance under the plan. Accordingly, shares of common stock can be purchased by qualified employees at a price equal to 85% of the fair market value of common stock at time of purchase. Shares totaling 46,934, 42,527 and 47,574 have been issued under this plan for the years ended August 31, 1998, 1997 and 1996, respectively. Shares available for issuance under this plan at August 31, 1998, were 82,783. The Company accounts for its employee stock purchase plan under the provisions of APB Opinion 25 and related interpretations.

12. INCOME TAXES

The provision for income taxes consists of the following (in thousands):

YEAR ENDED AUGUST 31,	1998	1997	1996
Current:			
Federal	$ 24,620	$ 24,103	$ 19,960
State	4,067	5,755	3,886
Foreign	1,920	790	778
Deferred:			
Federal	(614)	(2,544)	(548)
State	(100)	(606)	(74)
	$ 29,893	$ 27,498	$ 24,002

In connection with a change in accounting principle, the Company also recognized a $1.5 million tax benefit in fiscal 1998.

The differences between income taxes at the statutory federal income tax rate and income taxes reported in the consolidated statements of income are as follows:

YEAR ENDED AUGUST 31,	1998	1997	1996
Federal statutory tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	3.5	5.0	4.8
Goodwill amortization	2.3	.8	.3
Other	.7	.6	1.1
	41.5%	41.4%	41.2%

Significant components of the Company's deferred tax assets and liabilities are comprised of the following (in thousands):

AUGUST 31,	1998	1997
Current deferred tax assets:		
Inventory and bad debt reserves	$ 3,203	$ 2,435
Sales returns and contingencies	993	2,822
Vacation and other accruals	2,454	1,461
Other	243	666
Total current deferred tax assets	6,893	7,384
Long-term deferred tax assets and (liabilities):		
Interest and other capitalization	431	593
Intangibles and fixed asset step-up	(31,647)	(33,316)
Depreciation and amortization	(2,203)	(2,286)
Other	(2,438)	(726)
Net long-term deferred tax liabilities	(35,857)	(35,735)
Net deferred income tax liability	$ (28,964)	$ (28,351)

Current deferred tax assets are reported as a component of other current assets.

13. CHANGE IN ACCOUNTING PRINCIPLE

During fiscal 1998, the Emerging Issues Task Force (the "EITF") of the FASB issued consensus ruling 97-13 which specifies the accounting treatment of certain business reengineering and information technology implementation costs. EITF 97-13 requires that certain costs which have been previously capitalized to now be expensed as incurred. In addition, any previously capitalized costs that were incurred, and are addressed by EITF 97-13, were required to be written off.

The Company is currently involved in a business reengineering and information system implementation project and has capitalized costs in accordance with generally accepted accounting principles. Certain previously capitalized costs of the Project were written off in accordance with EITF 97-13 as a cumulative adjustment in the Company's first quarter of fiscal 1998. During the remainder of fiscal 1998, the majority of the costs associated with the Project were capitalized in accordance with EITF 97-13 and other related accounting standards. The Company expects that the majority of remaining Project costs will also qualify for capitalization.

The Company incurred significant costs associated with the Project during the fourth quarter of fiscal 1997. The following unaudited pro forma schedule presents the financial results of the Company as if the provisions of EITF 97-13 were adopted on September 1, 1996 (in thousands, except per share data):

YEAR ENDED AUGUST 31, 1997	Actual	Pro Forma
		(unaudited)
Sales	$ 433,272	$ 433,272
Gross margin	257,670	257,670
Operating income	67,363	64,184
Net income	38,865	37,026
Net income per share:		
Basic	$ 1.83	$ 1.75
Diluted	1.76	1.67

14. NET INCOME PER SHARE

During fiscal 1998, the Company adopted SFAS No. 128, "Earnings Per Share" ("EPS") which simplifies the standards for calculating EPS and replaces the presentations of Primary EPS and Fully Diluted EPS with Basic EPS and Diluted EPS. Basic EPS is calculated by dividing income from continuing operations by the weighted-average number of common shares outstanding during the period. Diluted EPS 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. Significant components of the numerator and denominator used for Basic and Diluted EPS are as follows (in thousands, except per share amounts):

YEAR ENDED AUGUST 31,	1998	1997	1996
		>	
Income before accounting change	$ 42,138	$38,865	$ 34,239
Cumulative effect of accounting change, net of tax	(2,080)		
Net Income	$ 40,058	$38,865	$ 34,239
Basic weighted-average shares outstanding	24,091	21,201	21,298
Incremental shares from the assumed exercise of stock options	635	916	1,030
Diluted weighted-average shares outstanding	24,726	22,117	22,328
Income from continuing operations per share:			
Basic	$ 1.75	$ 1.83	$ 1.61
Diluted	1.70	1.76	1.53
Cumulative effect of accounting change, net of tax, per share:			
Basic	(.09)		
Diluted	(.08)		
Net income per share:			
Basic	$ 1.66	$ 1.83	$ 1.61
Diluted	1.62	1.76	1.53

Options to purchase 1,661,875 shares of common stock with exercise prices ranging from $23.00 to $34.50 per share were outstanding during fiscal 1998 but were not included in the calculation of Diluted EPS because the exercise price was greater than the average market price of the common shares.

Subsequent to August 31, 1998, the Company purchased 688,200 shares of its common stock for $13.0 million.

15. STATEMENTS OF CASH FLOWS

The following supplemental disclosures are provided for the Consolidated Statements of Cash Flows (in thousands):

YEAR ENDED AUGUST 31,	1998	1997	1996
Cash paid for:			
Income taxes	$ 15,961	$ 27,916	$ 27,973
Interest	5,991	2,042	616
Fair value of assets acquired	$ 18,943	$ 88,208	$ 11,336
Cash paid for net assets	(16,786)	(33,188)	(7,608)
Liabilities assumed from acquisitions	$ 2,157	$ 55,020	$ 3,728
Tax effect of exercise of affiliate stock options	$ 266	$ 1,654	$ 287

Non-Cash Investing and Financing Activities

During the years ended August 31, 1998 and 1997, the Company accrued $13.0 million and $9.0 million, respectively, for earnout payments in connection with the acquisition of certain entities (see Note 16).

Effective June 2, 1997, Franklin Quest Co. ("Franklin") and Covey Leadership Center ("Covey") merged (the "Merger") to form Franklin Covey Co. In the Merger, the Company issued 5,030,894 shares of its common stock in exchange for all of the issued and outstanding capital stock of Covey. The total value of the stock exchanged was approximately $111.5 million. In connection with the foregoing exchange, the Company issued 382,100 stock options, exerciseable at $5.97 per share and valued at approximately $4.3 million, in exchange for all of the outstanding options to purchase Covey stock.

In connection with recording the tax effects of the Merger and the acquisition of Premier (see Note 16), the Company recognized approximately $29.4 million of net deferred tax liabilities with a corresponding increase to goodwill.

During fiscal 1997, the Company received 84,779 shares of common stock with a fair market value of approximately $1.9 million as consideration for 684,000 stock options exercised at $2.78 per share. The common stock issued from treasury for the options exercised had a weighted average cost of $20.35 per share.

16. MERGER, ACQUISITIONS & DIVESTING ACTIVITIES

Effective August 1, 1998, the Company sold its Institute of Fitness located near St. George, Utah for $13.4 million in cash. During fiscal 1998, the Company also sold certain consulting units and discontinued its operations at certain international locations. The net impact of these divestitures was immaterial to the consolidated financial statements of the Company.

Effective April 1, 1998, the Company acquired King Bear, Inc. ("King Bear") a Tokyo, Japan based company. King Bear, a former Covey licensee, provides leadership and time management training as well as publishing services. The publishing division of King Bear translated and currently publishes 7 Habits of Highly Effective People in Japanese. The cash purchase price was $5.3 million with additional contingent payments to be made over the next five years based upon the operating results of King Bear over that same period. The acquisition of King Bear was accounted for using the purchase method of accounting and generated $4.3 million of intangible assets which are being amortized over an estimated useful life of 15 years.

During fiscal 1997, Franklin and Covey merged to form Franklin Covey Co. In the Merger, the Company issued 5,030,894 shares of its common stock in exchange for all of the issued and outstanding capital stock of Covey. The Company's shares were valued at $22.16 per share, which was the average per share closing sales price of Franklin common stock on the New York Stock Exchange for the twenty consecutive trading days ended May 28, 1997. In connection with the Merger, the Company also acquired certain license rights for $27.0 million in cash.

The Merger was accounted for using the purchase method of accounting and generated approximately $175.6 million of intangible assets which are being amortized over estimated useful lives ranging from 12 to 40 years. In connection with recording the tax effects of the Merger, the Company recognized a net deferred tax liability totaling $24.0 million with a corresponding increase to goodwill which is being amortized over 30 years.

The following unaudited pro forma combined financial data presents the results of operations of the Company as if the Merger had been effective at the beginning of the periods presented (in thousands):

YEAR ENDING AUGUST 31,	1997	1996
(Unaudited)		
Revenue	$ 517,756	$ 421,064
Operating income	72,928	62,838
Net income	39,839	35,142
Diluted EPS	1.53	1.29

The foregoing unaudited pro forma results of operations reflect the effect of certain pro forma adjustments including (1) the amortization of the goodwill and other intangibles resulting from the Merger, (2) the recognition of increased interest expense resulting from the assumption of Covey liabilities and the cash payment for certain license rights, (3) the adjustment of income taxes to reflect a combined effective federal and state income tax rate and (4) the effect on earnings per share of the shares exchanged in the Merger having been outstanding for the periods presented.

On March 1, 1997, the Company acquired Premier with operations located in Bellingham, Washington and Abbotsford, British Columbia. Premier manufactures and markets academic and personal planners for students from kindergarten to college throughout the U.S. and Canada. Premier's business is seasonal in nature and nearly all of its revenue is recognized in the Company's fourth fiscal quarter. The combined cash purchase price was $23.2 million with additional contingent payments to be made over the next three years based upon Premier's operating performance over that same time period. The Premier acquisition was accounted for using the purchase method of accounting and generated $27.6 million of intangible assets that are being amortized over an estimated useful life of 15 years. In connection with recording the tax effects of the Premier acquisition, the Company recognized a deferred tax liability totaling $5.4 million with a corresponding increase to goodwill which is being amortized over 15 years. During fiscal 1998, the Company paid the first contingent payment of approximately $10.3 million. Such payment was classified as goodwill and is being amortized over the remaining life of the original purchased goodwill. As of August 31, 1998, $9.9 million has been accrued for the second contingent payment.

Effective October 1, 1996, the Company acquired the net assets of TrueNorth Corporation ("TrueNorth"). TrueNorth, a Utah Corporation, is a provider of post-instructional personal coaching to corporations and individuals. TrueNorth develops and delivers one-on-one personalized coaching which is designed to augment the effectiveness and duration of training curricula. The purchase price was $10.0 million in cash. In addition, contingent payments may be made over the next five years based on TrueNorth's operating performance. The acquisition of TrueNorth was accounted for using the purchase method of accounting and generated $9.3 million of intangible assets which are being amortized over an estimated useful life of 15 years. During fiscal 1998, the Company paid the first contingent payment of approximately $1.6 million. Such payment was classified as goodwill and is being amortized over the remaining life of the original purchased goodwill. As of August 31, 1998, $3.1 million has been accrued for the second contingent payment.

Effective December 1, 1995, the Company acquired the assets of Productivity Plus, Inc. ("PPI"), a provider of time management products sold primarily to the military. The company is headquartered in Phoenix, Arizona. The cash purchase price was $7.9 million, and additional payments may be made, based on the operating results of the company over the next four years following its acquisition. The acquisition of PPI was accounted for using the purchase method of accounting and generated intangible assets totaling $6.6 million which are being amortized over estimated useful lives of eight to ten years. During fiscal 1997, $3.0 million of additional payments were paid to PPI based on operating results of the period measured. Such payments are being amortized over the remaining useful life of goodwill generated by the acquisition. No additional payments were required during fiscal 1998 based upon operating results for the second measurement period. In addition, no future contingent payments for the third measurement period were accrued as of August 31, 1998.

17. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The unaudited quarterly financial information included on page 10 of the annual report to shareholders is an integral part of the consolidated financial statements.

Exhibit 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included or incorporated by reference in this Form 10-K, into the Company's previously filed Registration Statements on Form S-8, File Nos. 33-73624 and 33-51314, and Form S-3, File No. 33-47894.

ARTHUR ANDERSEN LLP

Salt Lake City, Utah
November 18, 1998

Exhibit 99.1

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
ON CONSOLIDATED FINANCIAL STATEMENT SCHEDULE

To Franklin Covey Co.:

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements included in Franklin Covey Co.'s annual report to shareholders incorporated by reference in this Form 10-K, and have issued our report thereon dated September 25, 1998. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed in the index on page 39 is the responsibility of the Company's management and is presented for the purpose of complying with the Securities and Exchange Commissions rules and is not part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Salt Lake City, Utah
September 25, 1998

Exhibit 99.2
SCHEDULE II

FRANKLIN COVEY CO.

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
For the Three Years Ended August 31, 1998
(Dollars in Thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
Year ended August 31, 1996:					
Allowance for doubtful accounts	$ 672	$ 301	$ 12(1)	$ (96)(3)	$ 889
Allowance for inventories	1,022	7,267	62(2)	(2,973)(4)	5,378
	$ 1,694	$ 7,568	$ 74	$ (3,069)	$ 6,267
Year ended August 31, 1997:					
Allowance for doubtful accounts	$ 889	$ 1,038	$1,322(1)	$ (1,318) (3)	$ 1,931
Allowance for inventories	5,378	4,254	400(2)	(5,557) (4)	4,475
	$ 6,267	$ 5,292	$1,722	$ (6,875)	$ 6,406
Year ended August 31, 1998:					
Allowance for doubtful accounts	$ 1,931	$ 3,472		$ (2,563) (3)	$ 2,840
Allowances for inventories	4,475	6,522		(5,998) (4)	4,999
	$ 6,406	$ 9,994		$ (8,561)	$ 7,839

(1) Represents the addition of the allowances for doubtful accounts of acquired companies.

(2) Represents the addition of the allowances for inventories of acquired companies.

(3) Represents a write-off of accounts deemed uncollectible.

(4) Reduction in the allowance is due to a write-off of obsolete inventories.

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FRANKLIN COVEY CO.
1,000
US DOLLARS

12-MOS
AUG-31-1998
SEP-01-1997
AUG-31-1998
1
27,760
0
86,461
2,840
47,799
175,293
197,148
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596,277
546,612
546,612
213,888
213,888
254,331
0
8,316
72,031
29,893
42,138
0
0
(2,080)
40,058
1.75
1.70