

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED AUGUST 31, 1997

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.
(Formerly Franklin Quest Co.)

(Exact name of registrant as specified in its charter)

UTAH 1-11107 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) 975-1776

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

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

The aggregate market value of the Common Stock held by non-affiliates of the Registrant on November 18, 1997, based upon the closing sale price of the Common Stock of \$22.25 per share on that date, was approximately \$457,945,139. 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 18, 1997, the Registrant had 24,780,928 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, 1997 (Parts II and IV), and (2) Proxy Statement for Registrant's Annual Meeting of Shareholders which is scheduled to be held on January 9, 1998 (Part III).

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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 which 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 fitness training services and book and commercial printing services. To facilitate implementation of the principles it teaches, the Company produces and markets its primary product, the Franklin Covey System.

The basic Franklin Covey System consists of a paper-based, two-page per day Franklin Covey Planner or 7 Habits Organizer, combined with a seven-ring binder, and a variety of planning aids, weekly, monthly and annual calendars and personal management sections. (The planner/organizer 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 Covey System. Franklin Covey markets the Franklin Covey System and accessory products directly to organizations, and through its sales catalog and its retail stores. At August 31, 1997, Franklin Covey had 110 domestic retail stores located in 38 states and the District of Columbia. A significant percentage of the users of the Franklin Covey System 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 and The Power Principle by Blaine Lee. 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 Covey System and related products, accounted for approximately 70% of the Company's sales during the fiscal year ended August 31, 1997.

Franklin Covey provides its effectiveness training materials to business, industry and individuals. The Company sells its services to the organization market through its own direct sales force. It delivers its training services to organizations in one of three ways. 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. The Company also conducts public seminars in over 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. 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 1997, the Company provided products and services to 82 of the Fortune 100 and over 60% 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, and to educational institutions. The Company also markets its services and products internationally outside the United States and Canada (in 38 countries) through Company owned and/or licensed operations.

Professional services, including training presented by client facilitators, accounted for approximately 25% of the Company's sales, representing over 450,000 individuals trained, during the year ended August 31, 1997.

In April 1995, the Company acquired the assets of Time Systems, Inc. ("Time Systems"), a time management training and product company headquartered in Phoenix, Arizona. In June 1995, the Company acquired the assets of LTS, Inc., a distributor of Time Systems products and training services located in Atlanta, Georgia.

In December 1995, the Company acquired the assets of Productivity Plus, Inc. ("Productivity Plus"), a time management company headquartered in Chandler, Arizona. Productivity 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, a training company headquartered in Salt Lake City, Utah. TrueNorth 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. ("Premier"), the leading provider of academic and personal planners for students from kindergarten to college age throughout the United States and Canada. Premier has a user base of approximately ten million students. The combined guaranteed purchase price was approximately \$23 million and additional payments may be made based on Premier's operating results over the three years following its acquisition.

Effective May 30, 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. In connection with the Merger, 5,030,894 shares of the Company's Common Stock were issued to shareholders of Covey and \$27 million in cash was paid to Stephen R. Covey for certain license rights (the "License Rights"). 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" and "Principal Centered Leadership," 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 the Company 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 and its telephone number is (801) 975-1776.

FRANKLIN COVEY'S PRODUCTS

Based upon its belief that organizational and individual productivity require effective time management, the Franklin Covey System has been developed as the basic tool for implementing the principles of Franklin Covey's time management system. The Franklin Covey System consists of a paper-based Franklin Covey Planner or 7 Habits Organizer, a binder in which to carry it, and various planning aids, weekly, monthly and annual calendars and personal management sections. Franklin Covey offers a broad line of planners, organizers and binders for the Franklin Covey System, which are available in various sizes and styles. During the fiscal year ended August 31, 1997, product sales, consisting primarily of the Franklin Covey System and related products, amounted to approximately \$301 million and accounted for approximately 70% of Franklin Covey's sales during the period.

PLANNERS AND ORGANIZERS. Renewal planners for the Franklin Covey System are provided in five sizes and various styles. They consist of monthly calendars, task lists and indexes, calendar pages for an entire year, prioritized daily task lists, appointment schedules, daily expense records, a daily record of events, and, in the 7 Habits Organizer, 52 weekly compass cards for recording weekly roles and goals. The master planner pack adds address and telephone directories, personal management sections, ready references, sections for identifying values and goals, financial and key information pages, future planning calendars for five years, colored tabs and dividers,

and a pagefinder/ruler in a separate pack. The renewal planner ranges in price from \$19.00 to \$37.00. The master planner pack is \$6.00.

KITS. In connection with its training, facilitation and consulting services, Franklin Covey sells content-based training products for use by time management workshop facilitators and participants. Seminar kits include a vinyl binder, master planner pack, renewal planner, storage binder and limited training materials, personal assessment products called "profiles," and personal application software. In addition, the Company sells a Standard Edition kit and a Deluxe Edition kit which contain all of the materials in the seminar kit plus a satellite notebook and additional training materials. Retail prices for the Standard Edition kit and the Deluxe Edition kit range from \$49.00 to \$104.00. Facilitator products include training videos, resource guides and presentation aids. Participant products include course manuals, workbooks and organizers.

BINDERS. Franklin Covey offers ring binders in a variety of materials and styles in each of the Franklin Covey System sizes. Binders are available in heat-sealed or sewn vinyl, as well as in simulated leather, deluxe leather, premium leather or tapestry covers. Binders are offered with or without a zipper or snap closure and with a variety of pocketholders and inserts for calculators, checkbooks, credit cards and writing instruments. The assortment of innovative binder styles, colors and finishes offered by the Company has been designed by a group of skilled in-house craftsmen to encourage existing clients to upgrade their binders. Binders range in price from \$11.95 to \$225.00. A substantial number of the Company's clients upgrade their binders from the original vinyl binder generally received in a kit.

SOFTWARE. In 1991 the Company introduced its ASCEND(R) program, a complete Personal Information Management ("PIM") system which can be used in conjunction with the paper-based Franklin Covey Planner or used as a stand-alone PIM system. ASCEND(R) permits users to generate and print data on Franklin Covey paper which can be inserted directly into the Franklin Covey System. The ASCEND(R) program operates in both the Windows(R) and Macintosh(R) environments. Franklin Covey offers ASCEND(R) at a retail price of \$99.95 which includes all necessary software, related tutorials and reference manuals. Franklin Covey offers ASCEND(R) through nationwide retail software stores, in its own retail stores and catalog, and in a specially-designed "home user" version through Sam's Club and Price Costco. Franklin Covey, through an alliance with Microsoft, has developed and commenced distribution of the 7 Habits Organizer in an electronic format known as 7 Habits Tools(TM). Microsoft has incorporated 7 Habits Tools into its popular scheduling software, Microsoft Schedule+. Franklin Covey also provides 7 Habits Tools Add On(TM), a software product that features advanced printing capabilities and other materials developed from The 7 Habits of Highly Effective People. The Company has also coordinated its content with the handheld PIM called The PalnPilot(TM), which is able to communicate with ASCEND(R), Microsoft Schedule+ and 7 Habits Tools.

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 and other topics. The Company also markets a variety of content-based personal development products. These products include books, Priorities(TM) 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 addressing the 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 Covey System sizes.

TRAINING, FACILITATION AND CONSULTING SERVICES

Franklin Covey's training, facilitation and consulting services are 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 146 training consultants in major metropolitan areas of the United States and 23 training consultants outside of the United States. Training consultants are selected and trained 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 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: Stakeholder Information Systems(TM) ("SIS"), used to assess client needs; the Performance Cycle(R) ("P-Cycle"), utilized for organizational diagnosis and re-design; and the Principle-Centered Change Process(TM) ("PCCP"), a rigorous methodology for organizational change management. These consultants represent a significant resource and are an integral part of the Company's approach to new product development and curriculum design; many of these individuals have been contributors to, or co-authors of books.

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 the 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 four levels of leadership needs: personal, interpersonal, managerial and organizational. In addition, the Company believes each of its workshops must provide an impactful experience, must generate additional business and must be profitable. During 1997, the Company trained more than 450,000 individuals 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 and deeper into the organization. Additionally, a three-day Principle-Centered Leadership course, which focuses on managerial and organization aspects of client needs is offered.

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 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 entitled *The 10 Natural Laws of Time and Life Management* and *First Things First*. Other single-day seminars and workshops include Presentation Advantage, a seminar helping individuals and organizations make more effective business presentations, Writing Advantage, a seminar that teaches better business writing and communication skills, Planning for Results and Stress Management. 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 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, organizers 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 14,000 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. Frequency of the seminars in each city or country depends on the concentration of Franklin Covey System 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 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.

The Franklin Covey Institute of Fitness (formerly the National Institute of Fitness) provides on-site training to individuals in fitness, exercise, nutrition and diet and has been recognized for its quality, economy and service. The Franklin Covey Institute of Fitness offers single week or multi-week training programs on-site at its fitness training complex located near St. George, Utah. The Company has developed a special health and fitness module to be a part of the Franklin Covey System, and clients at the Franklin Covey Institute of Fitness are trained in the Franklin Covey System.

Sales of Training Services for the fiscal year ended August 31, 1997 were approximately \$107 million and accounted for 25% of Franklin Covey's total sales during the period.

SALES AND MARKETING

Franklin Covey believes that its control over the channels through which its seminars and products are distributed has allowed it to maintain prices consistent with their quality and value and to provide high levels of client service. 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:

	AUGUST 31,					
	1995		1996		1997	
Product Sales.....	\$192,356	69.4%	\$236,039	71.1%	\$301,687	69.6%
Training Services.....	68,168	24.6	70,812	21.3	107,417	24.8
Printing Services.....	16,598	6.0	25,155	7.6	24,168	5.6
Total Sales.....	\$277,122	100.0%	\$332,006	100.0%	\$433,272	100.0%

PRODUCT. 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 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 650 client 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 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 which Franklin Covey believes increases client satisfaction and frequency and volume of purchases. At August 31, 1997, Franklin Covey had 110 domestic retail stores located in 38 states and the District of Columbia.

Franklin Covey attracts existing clients to its retail stores by informing them of store openings through direct mail. 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 Covey System. 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 in the Franklin Covey System, 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.

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 Covey System is effective in communicating uniform marketing plans, product information and procedures to large numbers of employees, sales representatives and distributors.

Productivity Plus markets The Ultimate Organizer, a paper-based refillable planner organizer, 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. The Company's training sales are largely made through its staff of in-house sales professionals and marketing personnel.

Franklin Covey employs 214 sales professionals who service major metropolitan areas throughout the United States and sell training services to institutional clients. Franklin Covey employs an additional 50 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 146 training consultants throughout the United States who present institutional and public seminars in their respective territories and 27 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 curricula 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 Covey System 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; Nightingale-Conant to market and distribute audio and video tapes of the Company's book titles; and Skillpath to market and present the Company's time management seminars.

INTERNATIONAL OPERATIONS

Franklin Covey provides its products and services internationally through Company-owned operations and through non-exclusive license arrangements with 18 foreign licensees operating 31 foreign offices. Franklin Covey has direct operations in Great Britain, Canada, Hong Kong, Japan, Australia, Taiwan, New Zealand, Mexico and Switzerland. Franklin Covey also operates retail stores in Canada, Hong Kong 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 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.

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 \$100 million range. Based upon Franklin Covey's fiscal 1997 sales of approximately \$107 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, Zenger Miller, Organizational Dynamics Inc. and the Center for Creative Leadership.

CONSULTING. Franklin Covey's PCCP change management methodology, which it initiated in 1996, is directly linked to culture change. Effective culture 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 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(R) 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 Covey System 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 Covey System 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 material 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 Covey 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, organizers 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. The Company believes that its knowledge and experience in the manufacturing of binders allows it to better control the quality and cost of binders manufactured by outside suppliers. 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 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, video tapes, 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 over 100 trademarks in the United States and has obtained registration in the United States and many foreign countries for many of its trademarks, including TimeQuest, The 7 Habits of Highly Effective People, First Things First, Principle-Centered Leadership, "What Matters Most?", Franklin Covey Planner, Franklin Day Planner, Ascend, Values Quest, 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, organizers and the text and other printed information provided in its training seminars, the programs contained within ASCEND(R) and its instructional materials including the Professional Consulting Group training materials. Franklin Covey has been issued copyright registrations in the United States covering the Franklin Covey System and its time management seminar. Franklin Covey believes it owns all copyrights or is in the process of obtaining copyright registration of all seminar and training materials comprising material components of its programs and books. Franklin Covey places 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, 1997, Franklin Covey had 4,741 full and part-time employees, including 2,274 in sales, marketing and training; 732 in client service and product development; 948 in production operations and distribution; and 783 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 primarily 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 \$4.0 million as of August 31, 1997. 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, 1997, with leases that terminate intermittently through the year 2009. Franklin Covey's 110 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; Hong Kong; Toronto; Vancouver; Montreal; Burlington; Brisbane, Australia; Taipei, Taiwan; Monterrey, Mexico; Mexico City, Mexico; and Auckland, New Zealand under leases which expire intermittently through the year 2004. In connection with operation of the Franklin Covey Institute of Fitness, Franklin Covey utilizes approximately 115,000 square feet of fitness and training facilities located on 61 acres near St. George, Utah. In connection with the acquisition of Time Systems, Franklin Covey assumed leases totaling approximately 50,000 square feet in Phoenix, Arizona, which expire through August 1998. All of Franklin's facilities are used exclusively by Franklin 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 fiscal year ended August 31, 1997.

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, 1997 and 1996, respectively.

	HIGH -----	LOW -----
FISCAL YEAR ENDED AUGUST 31, 1997:		
First Quarter.....	\$21 3/8	\$17 3/8
Second Quarter.....	22 7/8	20 1/4
Third Quarter.....	24	20 5/8
Fourth Quarter.....	28 1/4	24 1/8
FISCAL YEAR ENDED AUGUST 31, 1996:		
First Quarter.....	\$25 5/8	\$18 1/4
Second Quarter.....	24 1/2	17 7/8
Third Quarter.....	29 1/8	19 3/4
Fourth Quarter.....	20	18 1/4

The Company did not pay or declare dividends on its Common Stock during the fiscal years ended August 31, 1996 and 1997. 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 18, 1997, the Company had 24,780,928 shares of its Common Stock outstanding, held by approximately 400 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 1997 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 25 through 29 of the Company's 1997 Annual Report to Shareholders.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item is incorporated by reference to pages 30 through 43 of the Company's 1997 Annual Report to Shareholders.

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

None.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated by reference to the sections entitled "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 9, 1998. 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 entitled "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 9, 1998.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to the section entitled "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 9, 1998.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to the section entitled "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 9, 1998.

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, 1997 are incorporated by reference in Item 8 hereof:

- Report of Arthur Andersen LLP, Independent Public Accountants, for the year ended August 31, 1997 and 1996
 - Consolidated Balance Sheets at August 31, 1997 and 1996
 - Consolidated Statements of Income for the years ended August 31, 1997, 1996 and 1995
 - Consolidated Statements of Shareholders' Equity for the years ended August 31, 1997, 1996 and 1995
 - Consolidated Statements of Cash Flows for the years ended August 31, 1997, 1996 and 1995
 - Notes to Consolidated Financial Statements
- Report of Price Waterhouse LLP, Independent Public Accountants for the year ended August 31, 1995 (See page 17 herein).

2. Financial Statement Schedule. The following Consolidated Financial Statement Schedule for the three years ended August 31, 1997 is filed as part of this Report and should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto:

SCHEDULE	PAGE
-----	----
Report of Arthur Andersen LLP, Independent Public Accountants, on Consolidated Financial Statement Schedule for the years ended August 31, 1997 and 1996	18
Report of Price Waterhouse LLP, Independent Public Accountants, on Consolidated Financial Statement Schedule for year ended August 31, 1995	19
II -- Valuation and Qualifying Accounts and Reserves	20
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.	

3. 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	Shipley Acquisition Agreement	(4)	
10.6	Stock Exchange Agreement-- Publishers Press, Inc.	(5)	
10.9	Merger Agreement-- Covey Leadership Center, Inc.	(6)	
10.10	Lease Agreements, as amended and proposed to be amended, by and between Covey Corporate Campus One, L.L.C. 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.		(7)
13	Annual Report to Shareholders for the year ended August 31, 1997. 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.		(7)
22	Subsidiaries of the Registrant		(7)
23.1	Consent of Arthur Andersen LLP, independent public accountants		(7)
23.2	Consent of Price Waterhouse LLP, independent public accountants		(7)
27	Financial Data Schedule		(7)

-
- (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 fiscal 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 and Form 8-K/A dated January 3, 1995 and February 28, 1995.
- (6) Incorporated by reference to Report on Form 8-K dated June 3, 1997.
- (7) Filed herewith and attached to this Report following page 22 hereof.

- (b) Reports on Form 8-K

The Company filed a report on Form 8-K on June 3, 1997 to report consummation of the Merger with Covey.

- (c) Exhibits

Exhibits to this Report are attached following page 22 hereof.

- (d) Financial Statement Schedule

See pages 18 through 20 herein.

To the Board of Directors and Stockholders
of Franklin Covey Co.

Our audit of the consolidated financial statements referred to in our report dated September 20, 1995 appearing on page 17 of this Annual Report on Form 10-K of Franklin Covey Co. (which consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the Financial Statement Schedule listed in Item 14 (a) of this Form 10-K. In our opinion, this Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ Price Waterhouse LLP

Price Waterhouse LLP
Salt Lake City, Utah
September 20, 1995

SEC 3130.63

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 as of August 31, 1997 and 1996, and for the years then ended included in Franklin Covey Co.'s (formerly Franklin Quest Co., a Utah Corporation) annual report to shareholders incorporated by reference in this Form 10-K, and have issued our report thereon dated September 26, 1997. 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 14 is the responsibility of the Company's management and is presented for the purpose of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. The schedule data for the years ended August 31, 1997 and 1996 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 as of August 31, 1997 and 1996 and for the years then ended taken as a whole.

/s/ ARTHUR ANDERSEN LLP

ARTHUR ANDERSEN LLP

Salt Lake City, Utah
September 26, 1997

To the Board of Directors and Shareholders
of Franklin Covey Co.

In our opinion, the consolidated statements of income, of shareholders' equity and of cash flows as of and for the year ended August 31, 1995 (appearing on pages 31 through 43 of the Franklin Covey Co. 1997 Annual Report to shareholders which has been incorporated by reference in this Form 10-K Annual Report) present fairly, in all material respects, the results of operations and cash flows of Franklin Covey Co. and its subsidiaries for the year ended August 31, 1995, in conformity with generally accepted accounting principles. 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 audit. We conducted our audit of these statements in accordance with generally accepted auditing standards which 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 examination, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above. We have not audited the consolidated financial statements of Franklin Covey Co. for any period subsequent to August 31, 1995.

/s/ Price Waterhouse LLP

Price Waterhouse LLP
Salt Lake City, Utah
September 20, 1995

SEC 5010.53

FRANKLIN COVEY CO.

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
FOR THE THREE YEARS ENDED AUGUST 31, 1997
(DOLLARS IN THOUSANDS)

Column A ----- DESCRIPTION -----	Column B ----- BALANCE AT BEGINNING OF PERIOD -----	Column C ----- ADDITIONS ----- CHARGED TO COSTS AND EXPENSES -----		Column D ----- DEDUCTIONS -----	Column E ----- BALANCE AT END OF PERIOD -----
Year ended August 31, 1995:					
Allowance for doubtful accounts	\$ 593	\$ 348	\$ 259(1)	\$ (528)(3)	\$ 672
Allowance for inventories	856	-----	166(2)	-----	1,022
	-----	-----	-----	-----	-----
	\$1,449	\$ 348	\$ 425	\$ (528)	\$1,694
	=====	=====	=====	=====	=====
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
	=====	=====	=====	=====	=====

(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.

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, 1997.

FRANKLIN COVEY CO.

By: /s/ JON H. ROWBERRY

Jon H. Rowberry, President,
Chief Operating 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 and Chief Executive Officer	November 24, 1997
/s/ STEPHEN R. COVEY ----- Stephen R. Covey	Co-Chairman of the Board	November 24, 1997
/s/ JON H. ROWBERRY ----- Jon H. Rowberry	President, Chief Operating Officer and Director	November 24, 1997
/s/ STEPHEN M. R. COVEY ----- Stephen M. R. Covey	Executive Vice President and Director	November 24, 1997
/s/ JOHN L. THELER ----- John L. Theler	Executive Vice President and Chief Financial Officer and Director (Principal Financial and Accounting Officer)	November 24, 1997
/s/ JAMES M. BEGGS ----- James M. Beggs	Director	November 24, 1997
----- Robert F. Bennett	Director	November ____, 1997

SIGNATURE
-----TITLE
-----DATE

/s/ BEVERLY B. CAMPBELL ----- Beverly B. Campbell	Director	November 22, 1997
/s/ ROBERT H. DAINES ----- Robert H. Daines	Director	November 24, 1997
----- E. J. "Jake" Garn	Director	November ____, 1997
/s/ DENNIS G. HEINER ----- Dennis G. Heiner	Director	November 21, 1997
/s/ DANIEL P. HOWELLS ----- Daniel P. Howells	Director	November 24, 1997
/s/ THOMAS H. LENAGH ----- Thomas H. Lenagh	Director	November 24, 1997
/s/ JOEL C. PETERSON ----- Joel C. Peterson	Director	November 24, 1997
/s/ E. KAY STEPP ----- E. Kay Stepp	Director	November 24, 1997
----- Robert A. Whitman	Director	November ____, 1997

LEASE AGREEMENT

LANDLORD: COVEY CORPORATE CAMPUS ONE, L.L.C.

TENANT: COVEY LEADERSHIP CENTER, INC.

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DESCRIPTION

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23 & 24

RIDER Yes [X] No []
GUARANTY Yes [] No []

EXHIBIT "A" DESCRIPTION OF REAL PROPERTY
EXHIBIT "B" FLOORPLAN OF LEASED PREMISES
EXHIBIT "C" WORK LETTER-CONSTRUCTION AND/OR FINISH OF
 IMPROVEMENTS TO LEASED PREMISES
EXHIBIT "D" ACKNOWLEDGMENT OF COMMENCEMENT DATE &
 ESTOPPEL CERTIFICATE
EXHIBIT "E" COST TO CONSTRUCT LEASED PREMISES

LEASE AGREEMENT

COVEY LEADERSHIP OFFICE BUILDING

THIS LEASE AGREEMENT (the "Lease") is made and entered into as of this ____ day of January, 1996 by and between COVEY CORPORATE CAMPUS ONE, L.L.C. (the "Landlord"), and COVEY LEADERSHIP CENTER, INC. (the "Tenant"). THE BOYER COMPANY, L. C. (the "Property Manager") is also a party to this Lease for the limited purpose of providing the property management services described herein. This Lease is made and entered into by Landlord and Tenant for the purpose of fulfilling the terms of Section 1.06(b) of Landlord's First Amended Operating Agreement dated July 7, 1995. This Lease is the "new lease" described therein; it replaces and supersedes in its entirety the terms and provisions of that certain Industrial lease Agreement the ("old lease") dated April 7, 1995; and upon the execution and delivery of this Lease, the old lease shall have no efficacy, validity, or enforceability whatsoever.

For and in consideration of the rental to be paid by tenant and of the covenants and agreements herein set forth to be kept and performed by Tenant, Landlord hereby leases to Tenant and Tenant hereby leases from Landlord, the Leased Premises (as hereafter defined), at the rental and subject to and upon all of the terms, covenants and agreements hereinafter set forth.

I. PREMISES

1.1 Description of Premises. Landlord does hereby demise, lease and let unto Tenant, and Tenant does hereby take and receive from Landlord the following:

(a) That certain floor area containing approximately 54,257 gross rentable square feet (the "Leased Premises"), on Floors One, Two and Three (includes 4,270 square feet in the basement) of the three- story office building (the "Building") being constructed at approximately 300 West 4800 North, Provo, Utah, on the real property (the "Property") described on Exhibit "A" attached hereto and by this reference incorporated herein. The space occupied by Tenant consists of the entire Building, as set forth on Exhibit "B" which is attached hereto and by this reference incorporated herein.

(b) Such non-exclusive rights-of-way, easements and similar rights with respect to the Building and Property as may be reasonably necessary for access to and egress from, the Leased Premises.

(c) The exclusive right to use those areas designated and suitable for vehicular parking, including the exclusive right to the use of Two Hundred Five (205) parking stalls.

1.2 Work of Improvement. The obligation of Landlord and Tenant to perform the work and supply the necessary materials and labor to prepare the Leased Premises for

occupancy are described in detail on Exhibit "C". Landlord and Tenant shall expend all funds and do all acts required of them as described on Exhibit "C" and shall perform or have the work performed promptly and diligently in a first class and workmanlike manner.

1.3 Construction of Shell Building. Landlord shall, at its own cost and expense, construct and complete a three story 54,257 gross rentable square foot building and cause all of the construction which is to be performed by it in completing the Building and performing its work as set forth on Exhibit "C", to be substantially completed as evidenced by a Certificate of Occupancy, and the Leased Premises ready for Tenant to install its fixtures and equipment and to perform its other work as described on Exhibit "C" as soon as reasonably possible, but in no event later than January 1, 1997 ("Target Date"). In the event that Landlord's construction of obligation has not been fulfilled upon the expiration of the "Target Date", Tenant shall have the right to exercise any right or remedy available to it under this Lease, including the right to terminate this Lease and the right to charge Landlord and cause Landlord to pay any increased costs associated with Tenant's current leases due to holding over in such space or moving to temporary space; provided that under no circumstances shall Landlord be liable to Tenant resulting from delay in construction covered by circumstances beyond Landlord's direct control.

II. TERM

2.1 Length of Term. The term of this Lease shall be for a period of twenty (20) years plus the partial calendar month, if any, occurring after the Commencement Date (as hereinafter defined) if the Commencement Date occurs other than on the first day of a calendar month.

2.2 Commencement Date; Obligation to Pay Rent. The term of this Lease and Tenant's obligation to pay rent hereunder shall commence on the first to occur of the following dates ("Commencement Date"):

(a) The date Tenant occupies the Premises and conducts business.

(b) The date fifteen (15) days after the Landlord, or Landlord's supervising contractor, notified Tenant in writing that Landlord's construction obligations respecting the Leased Premises have been fulfilled and/or that the Leased Premises are ready for occupancy and/or performance of Tenant's work. Such notice shall be accompanied by an occupancy permit and a certificate from the Building Architect stating that remaining punchlist items can be completed within fifteen (15) days and will not materially interfere with Tenant's business. Prior to Commencement Date, it is contemplated that Tenant shall be able to perform its construction obligation as per Exhibit C II(H).

2.3 Construction of Leased Premises. Landlord shall provide a budget prior to the commencement of construction of the Leased Premises (see Exhibit "E"). Landlord shall

itemize each part of the construction and its associated estimated cost. Landlord shall pay an amount equal to \$954,712.00 or \$22.00 per usable square foot (on 47,666 usable square feet excluding the basement space of 4,270 square feet) of the cost listed (excluding cost to construct Shell Building) and Tenant shall be obligated for the remaining costs shown on Exhibit "E". Landlord shall not be obligated to pay for any increase in the actual cost of construction over and above the construction costs shown on Exhibit "E". Any special decorator items, equipment, furniture or furnishings not designated on Exhibit "E", as well as changes initiated by the Tenant to the Leased Premises, shall be the sole cost of Tenant and shall include the defined extras on Exhibit "E."

2.4 Renewal Option. If this Lease then remains in full force and effect, Tenant shall have the option to renew this Lease for two five year options commencing on the expiration date. Each option must be exercised by written notice to Landlord one hundred and eighty (180) days before the expiration of the previous term and once exercised is irrevocable. Base rent during each renewal term shall be determined pursuant to Section 3.1 below.

2.5 Acknowledgment of Commencement Date. Landlord and Tenant shall execute a written acknowledgment of the commencement Date in the form attached hereto as Exhibit "D".

III. BASIC RENTAL PAYMENTS

3.1 Basic Annual Rent. Tenant agrees to pay to Landlord as basic annual rent (the "Basic Annual Rent") at such place as Landlord may designate, without prior demand therefore and without any deduction or set off whatsoever, the sum of Seven Hundred Ninety Five Thousand Nine Hundred Two and no/100 Dollars (\$795,902.00) which includes the basement storage space. Said Basic Annual Rent shall be due and payable in twelve (12) equal monthly installments to be paid in advance on or before the first day of each calendar month during the term of the Lease. Basic Annual Rent shall escalate at the beginning of the 4th year and every three (3) years thereafter using a 3% annually compounded rate or the change in the All Urban Index, whichever is higher. For purposes of this Lease the term "All Urban Index" shall mean the Consumer Price Index for All Urban Consumers-U.S. City Average-all Items (1982-1984 equals 100 base) as published by the United States Bureau of Labor Statistics or any successor agency or any other index hereinafter employed by the Bureau of Labor Statistics in lieu of said index. The price index for the 3rd month preceding the month in which the Lease commences shall be considered the Basic Price Index. Therefore, the beginning of the 4th year and every three years thereafter, the Basic Annual Rental set forth in Section 3.1 shall be adjusted by multiplying such rental by a fraction, the numerator of which is the Price Index for the 3rd month preceding the beginning of the 4th year and the denominator of which is the Basic Price Index. The above notwithstanding, the maximum increase at the beginning of the 4th year shall be no more than 15.76% which is 5% per year compounded, and likewise on every adjustment date hereafter, the maximum increase shall be limited as described herein.

In no event shall Basic Annual Rent be reduced. In the event the Commencement Date occurs on a day other than the first day of a calendar month, then rent shall be paid on the Commencement

Date for the initial fractional calendar month prorated on a per-diem basis (based upon a thirty (30) day month).

3.2 Additional Monetary Obligations. Tenant shall also pay as rental (in addition to the Basic Annual Rent) all other sums of money as shall become due and payable by Tenant to Landlord under this Lease. Landlord shall have the same remedies in the case of a default in the payment of said other sums of money as are available to Landlord in the case of a default in the payment of one or more installments of Basic Annual Rent.

IV. ADDITIONAL RENT

4.1 Basic Annual Rent. It is the intent of both parties that the Basic Annual Rent herein specified shall be absolutely net to the Landlord throughout the term of this Lease, and that all costs, expenses and obligations relating to Tenant's pro rata share of the Building, Property and/or Building, Property and/or Leased Premises which may arise or become due during the term shall be paid by Tenant in the manner hereafter provided.

For purposes of this Part IV and the Lease in general, the following words and phrases shall have the meanings set forth below:

(a) "Direct Costs" shall mean all actual costs and expenses incurred by the Property Manager or Landlord in connection with Landlord's ownership, operation, management and maintenance of the Building and Property and related improvements located thereon (the "Improvements"), including, but not limited to, all expenses incurred by Landlord or the Property Manager as a result of their compliance with any and all of their obligations under this Lease other than the performance by Landlord of its work under Sections 1.2, 1.3 and 2.3 of this Lease. In explanation of the foregoing, and not in limitation thereof, Direct Costs shall include: all real property taxes and assessments (whether general or special, known or unknown, foreseen or unforeseen) and any tax or assessment levied or charged in lieu thereof, whether assessed against Landlord and/or Tenant and whether collected from Landlord and/or Tenant; snow removal, dumpster service, insurance, license, permit and inspection fees, cost of services of independent contractors, cost of compensation (including employment taxes and fringe benefits) of all persons who perform regular and recurring duties connected with day-to-day operation, maintenance, repair, and replacement of the Building, its equipment and the adjacent walk, and landscaped area (including, but not limited to gardening, security, parking, elevator, painting, plumbing, electrical, mechanical, carpentry, structural and roof repairs and reserves (the Property Manager may collect in advance up to one percent (1%) of Direct Costs as a reserve), signing and advertising, and rental expense or a reasonable allowance for depreciation of personal property used in the maintenance, operation and repair of the Building. Direct costs shall also include property management fees, which property management fees shall be equal to a percentage of Tenant's Basic Annual Rent and Estimated Costs, which percentage shall not exceed two and one half percent (2 1/2%) of the sum of Basic Annual Rent and Direct Costs and shall be paid to the Property Manager. However, Tenant shall pay the actual costs of water, sewer, gas and

electrical power directly to the municipal supplier of same. Direct Costs shall not include expenses incurred in connection with leasing, renovating, or improving space for tenants or other occupants or prospective tenants or occupants of the Building, expenses incurred for repairs resulting from damage by fire, windstorm or other casualty, to the extent such repairs are paid for by insurance proceeds, expenses paid by any tenant directly to third parties, or as to which Landlord is otherwise reimbursed by any third party or Tenant; expenses which, by generally accepted accounting principles, are treated as capital items except that if, as a result of governmental requirements, laws or regulations, Landlord shall expend monies directly or indirectly for improvements, additions or alterations to the Building which, by generally accepted accounting principles, are treated as a capital expenditures, the amortization of such capital expenditures based on a life acceptable to the appropriate taxing authority together with interest at the rate of 9% per annum shall be considered Direct Costs. The foregoing notwithstanding, Direct Costs shall not include depreciation on the Building and Tenant Finish, and amounts paid toward principal or interest of loans of Landlord.

(b) "Estimated Costs" shall mean the projected amount of Tenant's Direct Costs, excluding the costs of electricity provided to Tenant's Leased Premises. The Estimated Costs for the calendar year in which the Lease commences are \$172,700.00, and are not included in the Basic Annual Rent. If the Estimated Costs as of the date Tenant takes occupancy are greater than Tenant's Estimated Costs at the time this Lease is executed, the Estimated Costs shall be increased to equal the Estimated Costs as of the date of Tenant's occupancy.

4.2 Report of Direct Costs and Statement of Estimated Costs.

(a) After the expiration of each calendar year occurring during the term of this Lease, the Property Manager shall furnish Tenant a written statement of Tenant's Direct Costs occurring during the previous calendar year. The written statement shall specify the amount by which Tenant's Direct Costs exceed or are less than the amounts paid by Tenant during the previous calendar year pursuant to Section 4.3(b) below.

(b) At the same time specified in Section 4.2(a) above, Landlord shall furnish Tenant a written statement of the Estimated Costs for the then current calendar year.

4.3 Payment of Costs. Tenant shall pay the Direct Costs as follows:

(a) Each month Tenant shall pay to the Property Manager, without offset or deduction, one-twelfth (1/12th) of the Estimated Costs as defined in Sections 4.1(b) and 4.2(b) above.

(b) Within thirty (30) days after delivery of the written statement referred to in section 4.2(a) above, Tenant shall pay to the Property Manager the amount by which Tenant's Direct Costs, as specified in such written statements, exceed and aggregate of such costs actually paid by Tenant for the year at issue. Tenant shall have the right to audit the Property Manager's books upon reasonable notice. Tenant shall pay costs associated with the audit unless Tenant finds that the Property Manager has inflated expenses by more than ten percent

(10%), in which case, the Property Manager will pay audit charges. Payments by Tenant shall be made pursuant to this Section 4.3(b) notwithstanding that a statement pursuant to Section 4.2(a) is furnished to Tenant after the expiration of the term of this Lease.

(c) If the annual statement of costs indicates that the Estimated Costs paid by Tenant pursuant to subsection (b) above for any year exceeded Tenant's actual Direct Costs for the same year, the Property Manager shall promptly pay the amount of such excess to Tenant.

4.4 Resolution of Disagreement. Every statement given by the Property Manager pursuant to Section 4.2 shall be conclusive and binding upon Tenant unless within sixty (60) days after the receipt of such statement Tenant shall notify the Property Manager that it disputes the correctness thereof, specifying the particular respects in which the statement is claimed to be incorrect. If such dispute shall not have been settled by agreement, the parties hereto shall submit the dispute to arbitration within ninety (90) days after Tenant's receipt of statement. Pending the determination of such dispute by agreement or arbitration as aforesaid, Tenant shall, within thirty (30) days after receipt of such statement, pay in accordance with the Property Manager's statement, and such payment shall be without prejudice to Tenant's position. If the dispute shall be determined in Tenant's favor, the Property Manager shall forthwith pay Tenant the amount of Tenant's overpayment resulting from compliance with the Property Manager's statement, including interest on disputed amounts at prime plus two percent (2%). Landlord agrees to grant Tenant reasonable access to the Property Manager's books and records for the purpose of verifying Direct Costs for operating expenses incurred by the Property Manager.

4.5 Limitations. Nothing contained in this Part IV shall be construed at any time so as to reduce the monthly installments of Basic Annual Rent payable hereunder below the amount set forth in Section 3.1 of this Lease.

V. SECURITY DEPOSIT: NONE

VI. USE

6.1 Use of Leased Premises. The Leased Premises shall be used and occupied by Tenant for general office purposes only and for no other purpose whatsoever without the prior written consent of Landlord.

6.2 Prohibition of Certain Activities or Uses. The Tenant shall not do or permit anything to be done in or about, or bring or keep anything in the Leased Premises which is prohibited by this Lease or will, in any way or to any extent:

(a) Adversely affect any fire, liability or other insurance policy carried with respect to the Building, the Leased Premises or any of the contents of the Building (except with Landlord's express written permission, which will not be unreasonably withheld, but which may be contingent upon Tenant's agreement to bear any additional costs, expenses or liability for risk that may be involved).

(b) Conflict with or violate any law, statute, ordinance, rule, regulation or requirement of any governmental unit, agency or authority (whether existing or enacted as promulgated in the future, known or unknown, foreseen or unforeseen).

(c) Adversely overload the floors or otherwise damage the structural soundness of the Leased Premises or Building, or any part thereof (except with Landlord's express written permission, which will not be unreasonably withheld, but which may be contingent upon Tenant's agreement to bear any additional costs, expenses or liability for risk that may be involved).

6.3 Affirmative Obligations with Respect to Use.

(a) Tenant will comply with all governmental laws, ordinances, regulations, and requirements, now in force or which hereafter may be in force, of any lawful governmental body or authorities having jurisdiction over the Leased Premises, will keep the Leased Premises and every part thereof in a clean, neat, and orderly condition, free of objectionable noise, odors, or nuisances, will in all respects and at all times fully comply with all applicable health and policy regulations, and will not suffer, permit, or commit any waste.

(b) At all times during the term hereof, Tenant shall, at Tenant's sole cost and expense, comply with all statutes, ordinances, laws, orders, rules, regulations and requirements of all applicable federal, state, county, municipal and other agencies or authorities, now in effect or which may hereafter become effective, which shall impose any duty upon Landlord or Tenant with respect to the use, occupation or alterations of the Leased Premises (including, without limitation, all applicable requirements of the Americans with Disabilities Act of 1990 and all other applicable laws relating to people with disabilities, and all rules and regulations which may be promulgated thereunder from time to time and whether relating to barrier removal, providing auxiliary aids and services or otherwise) and upon request of Landlord shall deliver evidence thereof to Landlord.

6.4 Suitability. The Leased Premises, Building and Improvements (and each and every part thereof) shall be deemed to be in satisfactory condition unless, within sixty (60) days after the Commencement Date, Tenant shall give Landlord written notice specifying, in reasonable detail, the respects in which the Leased Premises, Building or Improvements are not in satisfactory condition. Landlord further provides warranties as provided in Exhibit C II paragraphs C and E.

6.5 Personal Property Taxes. Tenant shall pay all taxes, assessments, charges, and fees which during the term hereof may be imposed, assessed or levied by any governmental or public

authority against or upon Tenant's use of the Leased Premises or any personal property or fixture kept or installed therein by Tenant.

VII. UTILITIES AND SERVICE

7.1 Obligations of Property Manager. Except for the specific services and costs described herein, the parties intend that the Property Manager (as the Landlord's agent) shall provide all services and pay for all costs associated with the normal operation and maintenance of the Leased Premises at a level consistent with services and maintenance provided by the Property Manager with respect to similar buildings located in Provo, Utah. Therefore, during the term of this Lease the Property Manager agrees to cause to be furnished to the Lease Premises during normal operating hours the general services described in Section 4.1(a) above, the cost and expense of which shall be included in Direct Costs. For the purposes of this Lease, normal operating hours for the Leased Premises are from 7:00 a.m. to 6:00 p.m., Monday through Friday. These services include without limitation the following:

(a) Telephone connection to the building, but not including telephone stations and equipment (it being expressly understood and agreed that Tenant shall be responsible for the ordering and installation of telephone lines and equipment which pertain to the Leased Premises).

(b) Heating and air-conditioning during normal operating hours to such extent and to such levels as is reasonably required for the comfortable use and occupancy of the Leased Premises subject however to any limitations imposed by any government agency.

(c) Security (including the lighting of common halls, stairways, entries and restrooms) to such extent as is usual and customary in similar buildings in Provo, Utah.

(d) Snow removal service.

(e) Landscaping and groundskeeping service.

(f) Elevator service.

(g) Dumpster service.

(h) Parking lot maintenance.

7.2 Tenant's Election. Tenant may at any time after the first year of the lease term elect to reduce or to terminate Landlord's and the Property Manager's obligation to provide the services described in Section 7.1, by giving written notice of such election to Landlord and to the Property Manager not less than sixty (60) days before the date upon which such change is to be effective. From and after the effective date of any election of termination, Landlord and the Property Manager shall have no further obligation to provide any service described in the first sentence of this Section

7.1. Further, should Tenant elect to terminate Landlord's and the Property Manager's obligation, the management fee as described in Section 4.1(b) shall be reduced to 1% of Basic Annual Rent and shall be paid to the Property Manager.

7.3 Tenant's Obligations. Tenant shall arrange for and shall pay the entire cost and expense of (a) all telephone stations, equipment and use charges, electric light bulbs (but not fluorescent bulbs used in fixtures originally installed in the Leased Premises); (b) janitorial services for the Leased Premises; water, sewer, gas and electrical power for the Leased Premises; and (c) personal property taxes (as provided in Section 6.5 above).

7.4 Additional Limitations. If and where heat generating machines devices are used in the Leased Premises which affect the temperature otherwise maintained by the air conditioning system, Landlord reserves the right with Tenant's concurrence to install additional or supplementary air conditioning units for the Leased premises, and the entire cost of installing, operating, maintaining and repairing the same shall be paid by Tenant to Landlord promptly after demand by Landlord.

7.5 Limitation on Landlord's Liability. Landlord shall not be liable for and Tenant shall not be entitled to terminate this Lease or to effectuate any abatement or reduction of rent by reason of Landlord's or the Property Manager's failure to provide or furnish any of the foregoing utilities or services if such failure was reasonably beyond the control of Landlord or the Property Manager. In no event shall Landlord or the Property Manager be liable for loss or injury to persons or property, however, arising or occurring in connection with or attributable to any failure to furnish such utilities or services even if within their control except in the event of their negligence.

VIII. MAINTENANCE AND REPAIRS; ALTERATIONS; ACCESS

8.1 Maintenance and Repairs by Property Manager. The Property Manager at its sole cost shall maintain in good order, condition and repair the structural components of the Leased Premises, including without limitation roof, exterior walls and foundations, as well as all repairs covered under construction warranties provided if the Property Manager is required to make structural repairs by reason of Tenant's negligent acts or omissions, Tenant shall pay the costs for making such repairs.

8.2 Maintenance and Repairs by Tenant. Tenant, at Tenant's sole cost and expense and without prior demand being made, shall maintain the Leased Premises in good order, condition and repair, and will be responsible for the painting, carpeting or other interior design work of the Leased Premises beyond the initial construction phase as specified in Section 2.3 and Exhibit "C" and "E" of the Lease and shall maintain all equipment and fixtures installed by Tenant. If repainting or recarpeting is required and authorized by Tenant, the cost for such are the sole obligation of Tenant and shall be paid for by Tenant immediately following the performance of said work and a presentation of an invoice for payment.

8.3 Alterations. Tenant shall not make or cause to be made any alterations, additions or improvements or install or cause to be installed any fixtures, signs, floor coverings, interior or

exterior lighting, plumbing fixtures, or shades or awnings, or make any other changes to the Leased Premises without first obtaining Landlord's written approval, which approval shall not be unreasonably withheld. Tenant shall present to the Landlord plans and specifications for such work at the time approval is sought. In the event Landlord consents to the making of any alterations, additions, or improvements to the Leased Premises by Tenant, the same shall be made by Tenant at Tenant's sole cost and expense. All such work with respect to any alterations, additions, and changes shall be done in a good and workmanlike manner and diligently prosecuted to completion such that, except as absolutely necessary during the course of such work, the Leased Premises shall at all times be a complete operating unit. Any such alterations, additions, or changes shall be performed and done strictly in accordance with all laws and ordinances relating thereto. In performing the work or any such alterations, additions, or changes, Tenant shall have the same performed in such a manner as not to obstruct access to any portion of the Building. Any alterations, additions, or improvements to or of the Leased Premises, including, but not limited to, wallcovering, paneling, and built-in cabinet work, but excepting movable furniture and equipment, shall at once become a part of the realty and shall be surrendered with the Premises, unless Landlord and Tenant agree at any time that the specific improvement may be removed by Tenant at the end of the Term provided Tenant restores the premises to its original condition, wear and tear excepted.

8.4 Landlord's Access to Leased Premises. Landlord shall have the right to place, maintain, and repair all utility equipment of any kind in, upon, and under the Leased Premises as may be necessary for the servicing of the Leased Premises and other portion of the Building. Landlord shall upon providing adequate notice to Tenant, also have the right to enter the Leased Premises at all times to inspect or to exhibit the same to prospective purchasers, mortgagees, tenants, and lessees, and to make such repairs, additions, alterations, or improvements as Landlord may deem desirable. Landlord shall be allowed to take all material upon said Leased Premises that may be required therefor without the same constituting an actual or constructive eviction of Tenant in whole or in part and the rents reserved herein shall in no wise abate while said work is in progress by reason of loss or interruption of Tenant's business or otherwise, and Tenant shall have no claim for damages unless due to Landlord negligence. During the three (3) months prior to expiration of this Lease or of any renewal term, Landlord may place upon the Leased Premises "For Lease" or "For Sale" signs which Tenant shall permit to remain thereon.

IX. ASSIGNMENT

9.1 Assignment Prohibited. Tenant shall not transfer, assign, mortgage, or hypothecate this Lease, in whole or in part, or permit the use of the Leased Premises by any person or persons other than Tenant, or sublet the Leased Premises, or any part thereof, without the prior written consent of Landlord in each instance, which consent shall not be unreasonably withheld, provided sufficient information is provided to Landlord to accurately represent the financial condition of those to whom this Lease will be transferred, assigned, mortgaged, or hypothecated. Such prohibition against assigning or subletting shall include any assignment or subletting by operation of law. Any transfer of this Lease from the Tenant by merger, consolidation, transfer of assets, or liquidation shall constitute an assignment for purposes of this Lease. In the event that Tenant hereunder is a corporation, an unincorporated association, or a partnership, the transfer, assignment, or

hypothecation of any stock or interest in such corporation, association, or partnership in the aggregate in excess of forty-nine percent (49%) in any one-year period shall be deemed an assignment within the meaning of this Section. The above prohibition of assignment will not apply in the case of a registered offering of shares by Tenant or the public trading of registered shares subsequent to an initial offering.

9.2 Consent Required.

(a) Any assignment or subletting without Landlord's consent shall be void, and shall constitute a default hereunder which, at the option of Landlord, shall result in the termination of this Lease or exercise of Landlord's other remedies hereunder. Consent to any assignment or subletting shall not operate as a waiver of the necessity for consent to any subsequent assignment or subletting, and the terms of such consent shall be binding upon any person holding by, under, or through Tenant.

(b) Landlord shall have no obligation to consent to the proposed sublease or assignment if the proposed sublessee or assignee or its business is or may be subject to compliance with additional requirements of the law, including any related rules or regulations, commonly known as the "Americans with Disabilities Act of 1990" or similar state or local laws relating to persons with disabilities beyond those requirements which are applicable to the tenant desiring to so sublease or assign".

9.3 Landlord's Right in Event of Assignment. If this Lease is assigned or if the Leased Premises or any portion thereof are sublet or occupied by any person other than the Tenant, Landlord may collect rent and other charges from such assignee or other party, and apply the amount collected to the rent and other charges reserved hereunder, but such collection shall not constitute consent or waiver of the necessity of consent to such assignment, subleasing, or other transfer, nor shall such collection constitute the recognition of such assignee, sublessee, or other party as the Tenant hereunder or a release of Tenant from the further performance of all of the covenants and obligations, including obligation to pay rent, of Tenant herein contained. In the event that Landlord shall consent to a sublease or assignment hereunder, Tenant shall pay to Landlord reasonable fees, not to exceed \$100.00, incurred in connection with processing of documents necessary to the giving of such consent. In the event Landlord consents to the assignment as provided by paragraph 9.1, then Tenant shall be released from further performance of any covenant and obligation under this Lease.

X. INDEMNITY

10.1 Indemnification. Tenant and Landlord shall indemnify each other and save each other harmless from and against any and all suits, actions, damage and claims, liability and expense in connection with loss of life, bodily or personal injury, or property damage arising from or out of any occurrence in, upon, at or from the Leased Premises, or occasioned wholly or in part by any act or omission of Tenant or Landlord, their agents, contractors, employees, servants, invitees, licensees or concessionaires. For the purposes of this Lease, the Property Manager is an agent of the Landlord. All insurance policies carried by Tenant and/or Landlord shall include a waiver of

subrogation endorsement which specifies that the insurance carrier(s) will waive any right of subrogation against Tenant and/or Landlord arising out of any insurance claim.

10.2 Release of Landlord. Landlord shall not be responsible or liable at any time for any loss or damage to Tenant's personal property or to Tenant's business. Tenant shall store its property in and shall use and enjoy the Leased Premises and all other portions of the Building and Improvements at its own risk, and hereby releases Landlord, to the full extent permitted by law, from all claims of every kind resulting in loss of life, personal or bodily injury, or property damage to or arising in connection with Tenant's ownership of its personal property or the operation of Tenant's business.

10.3 Notice. Tenant shall give prompt notice to Landlord in case of fire or accidents in the Leased Premises or in the Building of which the Leased Premises are a part or of defects therein or in any fixtures or equipment.

10.4 Litigation. If any party to this Lease, without fault on its part, shall be made a party to any litigation that names either of the other two parties to this lease, those other parties shall protect and hold harmless the party without fault and shall pay all costs, expenses, and reasonable attorneys' fees, provided that the party to be protected must first notify the other parties promptly in writing of any such claim and further provided that the party or parties to be charged shall be entitled to direct the defense or settlement of such claim. No party to this Lease shall be responsible for any settlement or compromise of any such claim without its prior written consent.

INSURANCE

11.1 Fire and "All Risk" Insurance on Tenant's Personal Property and Fixtures. At all times during the term of this Lease, Tenant shall keep in force at its sole cost and expense, fire insurance and "All Risk" (including vandalism and malicious mischief) in companies acceptable to Landlord, equal to the replacement cost of Tenant's fixtures, furnishings, equipment, and contents upon the Leased Premises and all improvements or additions made by Tenant to the Leased Premises. The Landlord shall be named as an additional insured on all such policies.

11.2 Liability Insurance. Tenant shall, during the entire term hereof, keep in full force and effect a policy of public liability and property damage insurance to include contractual coverage with respect to the Leased Premises and the business operated by Tenant in the Leased Premises, with a combined single limit for personal or bodily injury and property damage of not less than \$500,000.00. The policy shall name Landlord, any person, firms, or corporations designated by Landlord, and Tenant as insureds, and shall contain a clause that the insurer will not cancel or materially change the insurance pertaining to the Leased Premises without first giving Landlord ten (10) days written notice. Tenant shall at all times during the term hereof provide Landlord with evidence of current insurance coverage. All public liability, property damage, and other liability policies shall be written as primary policies, not contributing with coverage which Landlord may carry.

11.3 Subrogation. Tenant and Landlord each waive its right of subrogation against each other for any reason whatsoever.

11.4 Lender. Any mortgage lender interest in any part of the Building or Improvements may, at Landlord's option, be afforded coverage under any policy required to be secured by Tenant hereunder, by use of a mortgagee's endorsement to the policy concerned.

XII. DESTRUCTION

If the Leased Premises shall be partially damaged by any casualty insured against under any insurance policy maintained by Landlord, Landlord shall, upon receipt of the insurance proceeds, repair the Leased Premises and until repair is complete the Basic Annual Rent and Additional Rent shall be abated proportionately as to that portion of the Leased Premises rendered untenable. Notwithstanding the foregoing, if: (a) the Leased Premises by reason of such occurrence are rendered wholly untenable, or (b) the Leased Premises should be damaged as a result of a risk which is not covered by insurance, or (c) the Leased Premises should be damaged in whole or in part during the last six (6) months of the term or of any renewal hereof, or (d) the Leased Premises or the Building (whether the Leased Premises are damaged or not) should be damaged to the extent of fifty percent (50%) or more of the then-monetary value thereof, then and in any such events, Landlord may either elect to repair the damage or may cancel this Lease by notice of cancellation within Ninety (90) days after such event and thereupon this Lease shall expire, and Tenant shall vacate and surrender the Leased Premises to Landlord. Tenant's liability for rent upon the termination of this Lease shall cease as of the day following Landlord's giving notice of cancellation. In the event Landlord elects to repair any damage, any abatement of rent shall end five (5) days after notice by Landlord to Tenant that the Leased Premises have been repaired. If the damage is caused by the negligence of Tenant

or its employees, agents, invitees, or concessionaires, there shall be no abatement of rent. Unless this Lease is terminated by Landlord, Tenant shall repair and refixture the interior of the Leased Premises to the extent of the Tenant Finish in a manner and in at least a condition equal to that existing prior to the destruction or casualty and the proceeds of all insurance carried by Tenant on its property and fixtures shall be held in trust by Tenant for the purpose of said repair and replacement.

XIII. CONDEMNATION

13.1 Total Condemnation. If the whole of the Leased Premises shall be acquired or taken by condemnation proceeding, then this Lease shall cease and terminate as of the date of title vesting in such proceeding.

13.2 Partial Condemnation. If any part of the Leased Premises shall be taken as aforesaid, and such partial taking shall render that portion not so taken unsuitable for the business of Tenant, then this Lease shall cease and terminate as aforesaid. If such partial taking is not extensive enough to render the Leased Premises unsuitable for the business of Tenant, then this Lease shall continue in effect except that the Basic Annual Rent and Additional Rent shall be reduced in the same proportion that the portion of the Leased Premises (including basement, if any) taken bears to the total area initially demised and Landlord shall, upon receipt of the award in condemnation, make all necessary repairs or alterations to the Building in which the Leased Premises are located, provided that Landlord shall not be required to expend for such work an amount in excess of the amount received by Landlord as damages for the part of the Leased Premises to taken. "Amount received by Landlord" shall mean that part of the award in condemnation which is free and clear to Landlord of any collection by mortgage lenders for the value of the diminished fee.

13.3 Landlord's Option to Terminate. If more than twenty percent (20%) of the Building shall be taken as aforesaid, Landlord may, by written notice to Tenant, terminate this Lease. If this Lease is terminated as provided in this Section, rent shall be paid up to the day that possession is so taken by public authority and Landlord shall make an equitable refund of any rent paid by Tenant in advance.

13.4 Award. Tenant shall not be entitled to and expressly waives all claim to any condemnation award for any taking, whether whole or partial and whether for diminution in value of the leasehold or to the fee, although Tenant shall have the right, to the extent that the same shall not reduce Landlord's award, to claim from the condemnor, but not from the Landlord, such compensation as may be recoverable by Tenant in its own right for damages to Tenant's business and fixtures.

13.5 Definition. As used in this Part XIII the term "condemnation proceeding" means any action or proceeding in which any interest in the Leased Premises is taken for any public or quasi-public purpose by any lawful authority through exercise of eminent domain or right of condemnation or by purchase or otherwise in lieu thereof.

XIV. LANDLORD'S RIGHTS TO CURE

14.1 General Right. In the event of breach, default, or noncompliance hereunder by Landlord, Tenant shall, before exercising any right or remedy available to it, give Landlord written notice of the claimed breach, default, or noncompliance. If prior to its giving such notice Tenant has been notified in writing (by way of Notice of Assignment of Rents and Leases, or otherwise) of the address of a lender which has furnished any of the financing referred to in Part XV hereof, concurrently with giving the aforesaid notice to Landlord, Tenant shall, by registered mail, transmit a copy thereof to such lender. For the fifteen (15) days following the giving of the notice(s) required by the foregoing portion of this section (or such longer period of time as may be reasonably required to cure a matter which, due to its nature, cannot reasonably be rectified within fifteen (15) days), Landlord shall have the right to cure the breach, default, or noncompliance involved. If Landlord has failed to cure a default within said period, any such lender shall have an additional fifteen (15) days within which to cure the same or, if such default cannot be cured within that period, such additional time as may be necessary if within such fifteen (15) day period said lender has commenced and is diligently pursuing the actions or remedies necessary to cure the breach default, or noncompliance involved (including, but not limited to, commencement and prosecution of proceedings to foreclose or otherwise exercise its rights under its mortgage or other security instrument, if necessary to effect such cure), in which event this Lease shall not be terminated by Tenant so long as such actions or remedies are being diligently pursued by said lender.

14.2 Mechanic's Lien. Should any mechanic's or other lien be filed against the Leased Premises or any part thereof by reason of Tenant's acts or omissions or because of a claim against Tenant, Tenant shall cause the effect of the same to be cancelled and discharged or bonded over or otherwise within ten (10) days after written notice by Landlord.

XV. FINANCING; SUBORDINATION

15.1 Subordination. Tenant acknowledges that it might be necessary for Landlord or its successors or assigns to secure mortgage loan financing or refinancing affecting the Leased Premises. Tenant also acknowledges that the lender interested in any given loan may desire that Tenant's interest under this Lease be either superior or subordinate to the mortgage then held or to be taken by said Lender. Accordingly, Tenant agrees that at the request of Landlord at any time and from time to time Tenant shall execute and deliver to Landlord an instrument, in form reasonably acceptable to Landlord, whereby Tenant subordinates its interest under this Lease and in the Leased Premises to such of the following encumbrances as may be specified by Landlord: Any mortgage or trust deed and customary related instruments are herein collectively referred to merely as a "Mortgage" and securing a loan obtained by Landlord or its successors or assigns for the purpose of enabling acquisition of the Building and/or construction of additional improvements to provide permanent financing for the Building, or for the purpose of refinancing any such construction, acquisition, standing or permanent loan. Provided, however, that any such instrument or subordination executed by Tenant shall provide that so long as Tenant continues to perform all of its obligations under this Lease its tenancy shall remain in full force and effect notwithstanding Landlord's default in connection with the Mortgage concerned or any resulting foreclosure or sale

or transfer in lieu of such proceedings. Tenant shall not subordinate its interests hereunder or in the Leased Premises to any lien or encumbrance other than the Mortgages described in and specified pursuant to this Section 15.1 without the prior written consent of Landlord and of the lender interested under each mortgage then affecting the Leased Premises. Any such unauthorized subordination by Tenant shall be void and of no force or effect whatsoever.

15.2 Attornment. Any sale, assignment, or transfer of Landlord's interest under this Lease or in the Leased Premises including any such disposition resulting from Landlord's default under a mortgage, shall be subject to this Lease and also Tenant shall attorn to Landlord's successor and assigns and shall recognize such successor or assigns as Landlord under this Lease, regardless of any rule of law to the contrary or absence of privity of contract.

15.3 Financial Information. As a condition to Landlord's acceptance of this Lease, Tenant shall provide financial information sufficient to verify to Landlord the financial condition of Tenant. Tenant hereby represents and warrants that none of such information contains or will contain any untrue statement of material fact, nor will such information omit any material fact necessary to make the statements contained therein misleading or unreliable. Any financial information provided by Tenant shall be held in confidence and distributed only to Landlord's investors or lenders for the Leased Premises.

XVI. EVENTS OF DEFAULT; REMEDIES OF LANDLORD

16.1 Default by Tenant. Upon the occurrence of any of the following events, Landlord shall have the remedies set forth in Section 16.2:

(a) Tenant fails to pay any installment of Basic Annual Rent or Estimated Costs or any other sum due hereunder within ten (10) days after Tenant receives written notice of rent due.

(b) Tenant fails to perform any other term, condition, or covenant to be performed by it pursuant to this Lease within ten (10) days after written notice of such default shall have been given to Tenant by Landlord or, if cure would reasonably require more than ten (10) days to complete, if Tenant fails to commence performance within the ten (10) day period or fails diligently to pursue such cure to completion.

(c) Tenant shall become bankrupt or insolvent or file any debtor proceedings or have taken against such party in any court pursuant to state or federal statute, a petition in bankruptcy or insolvency, reorganization, or appointment of a receiver or trustee; or Tenant petitions for or enters into an arrangement; or suffers this Lease to be taken under a writ of execution.

16.2 Remedies. In the event of any default by Tenant hereunder, Landlord may at any time, without waiving or limiting any other right or remedy available to it, terminate Tenant's rights under this Lease by written notice, reenter and take possession of the Premises by any lawful means

(with or without terminating this Lease), or pursue any other remedy allowed by law. Tenant agrees to pay to Landlord the cost of recovering possession of the Premises, all costs of reletting, and arising out of Tenant's default, including attorneys' fees. Notwithstanding any reentry, the liability of Tenant for the rent reserved herein shall not be extinguished for the balance of the Term, and Tenant agrees to compensate Landlord upon demand for any deficiency arising from reletting the Premises at a lesser rent than applies under this Lease.

16.3 Past Due Sums; Penalty. If Tenant fails to pay, when the same is due and payable, any Basic Annual Rent, Estimated Costs and electrical charges within ten (10) days after the same is due and payable, or other sum required to be paid by it hereunder, such unpaid amounts shall bear interest from the due date thereof to the date of payment at a fluctuating rate equal to two percent (2%) per annum above the prime rate of interest charged by First Security Bank of Utah, Salt Lake City, Utah. In addition thereto, Tenant shall pay a sum of five percent (5%) of such unpaid amounts as a service fee. Notwithstanding the foregoing, however, Landlord's right concerning such interest and service fee shall be limited by the maximum amount which may properly be charged by Landlord for such purposes under applicable law.

XVII. PROVISIONS APPLICABLE AT TERMINATION OF LEASE

17.1 Surrender of Premises. At the expiration of this Lease, except for changes made by Tenant that were approved by Landlord, Tenant shall surrender the Leased Premises in the same condition, less reasonable wear and tear, as they were in upon delivery of possession thereto under this Lease and shall deliver all keys to Landlord. Before surrendering the Leased Premises, Tenant shall remove all of its personal property and trade fixtures and such property or the removal thereof shall in no way damage the Leased Premises, and Tenant shall be responsible for all costs, expenses and damages incurred in the removal thereof. If Tenant fails to remove its personal property and fixtures upon the expiration of this Lease, the same shall be deemed abandoned and shall become the property of Landlord.

17.2 Holding Over. Any holding over after the expiration of the term hereof or of any renewal term shall be construed to be a tenancy from month to month at such rates as Landlord may designate and on the terms herein specified so far as possible. Landlord may not in any event raise the rent above 110% of the last month's rent.

XVIII. ATTORNEYS' FEES

In the event that at any time during the term of this Lease any party institutes any action or proceeding against any other party relating to the provisions of this Lease or any default hereunder, then the unsuccessful party in such action or proceeding agrees to reimburse the successful party for the reasonable expenses of such action including reasonable attorneys' fees, incurred therein by the successful party.

XIX. ESTOPPEL CERTIFICATE

19.1 Landlord's Right to Estoppel Certificate. Tenant shall, within fifteen (15) days after Landlord's request, execute and deliver to Landlord a written declaration, in form and substance similar to Exhibit "D", in recordable form: (1) ratifying this Lease; (2) expressing the Commencement Date and termination date hereof; (3) certifying that this Lease is in full force and effect and has not been assigned, modified, supplemented or amended (except by such writing as shall be stated); (4) that, if true, all conditions under this Lease to be performed by Landlord have been satisfied; (5) that there are no defenses or offsets against the enforcement of this Lease by the Landlord, or stating those claimed by Tenant; (6) the amount of advance rental, if any, (or none if such is the case) paid by Tenant; (7) the date to which rental has been paid; (8) the amount of security deposited with Landlord; and (9) such other information as Landlord may reasonably request. Landlord's mortgage lenders and/or purchasers shall be entitled to rely upon such declaration.

19.2 Effect of Failure to Provide Estoppel Certificate. Tenant's failure to furnish any Estoppel Certificate within fifteen (15) days after request therefor shall be deemed a default hereunder and moreover, it shall be conclusively presumed that: (a) this Lease is in full force and effect without modification in accordance with the terms set forth in the request; (b) that there are no unusual breaches or defaults on the part of the Landlord; and (c) no more than one (1) month's rent has been paid in advance.

XX. PARKING

Automobiles of Tenant and all visitors associated with Tenant shall be parked only within parking areas designated by Landlord for parking. Landlord or its agents shall, without any liability to Tenant or its occupants, have the right to cause to be removed any automobile that may be wrongfully parked in a prohibited or reserved parking area, and Tenant agrees to indemnify, defend and hold Landlord harmless from and against any and all claims, losses, demands, damages and liabilities asserted or arising with respect to or in connection with any such removal of an automobile except due to Landlord's negligence. Tenant shall from time to time, upon request of Landlord, supply Landlord with a list of license plate numbers of all automobiles owned by Tenant or its day-to-day occupant.

XXI. SIGNS, AWNINGS, AND CANOPIES

Tenant shall not place or suffer to be placed or maintained on any exterior door, wall, or window of the Leased Premises, or elsewhere in the Building, any sign, awning, marquee, decoration, lettering, attachment, or canopy, or advertising matter or other thing of any kind, and will not place or maintain any decoration, lettering, or advertising matter on the glass of any window or door of the Leased Premises without obtaining the proper authorization from Utah County prior to installing. Tenant will otherwise be free to install signage of its choice.

MISCELLANEOUS PROVISIONS

22.1 No Partnership. Neither Landlord nor the Property Manager by this Lease, in any way or for any purpose, becomes a partner or joint venturer of Tenant in the conduct of its business or otherwise.

22.2 Force Majeure. Landlord and the Property Manager shall be excused for the period of any delay in the performance of any obligations hereunder when prevented from so doing by cause or causes beyond their control, including labor disputes, civil commotion, war, governmental regulations or controls, fire or other casualty, inability to obtain any material or service, or acts of God.

22.3 No Waiver. Failure of any party to insist upon the strict performance of any provision or to exercise any option hereunder shall not be deemed a waiver of such breach. No provision of this Lease shall be deemed to have been waived unless such waiver be in writing signed by Landlord or the Property Manager or Tenant, as the case may be.

22.4 Notice. Any notice, demand, request, or other instrument which may be or is required to be given under this Lease shall be (i) given by facsimile, (ii) delivered in person or (iii) sent by United States certified or registered mail, postage prepaid and shall be addressed (a) if to Landlord, at the place specified for payment of rent, and (b) if to Tenant, either at the Leased Premises or at any other current address for Tenant which is known to Landlord. Either party may designate such other address as shall be given by written notice or by facsimile transmission.

Landlord: COVEY CORPORATE CAMPUS ONE, L.L.C.
C/O THE BOYER COMPANY, L.C.
127 SOUTH 500 EAST, SUITE 310
SALT LAKE CITY, UTAH 84102
(801) 521-4781/FAX (801) 521-4793
ATTENTION: B. GREG GARDNER

Tenant: COVEY LEADERSHIP CENTER, INC.
300 WEST 4800 NORTH
PROVO, UTAH

AND

RICHARD L. HILL, ESQ.
JAMESTOWN SQUARE
3319 NORTH UNIVERSITY AVENUE
SUITE 200
PROVO, UTAH 84604
(801) 375-6600/FAX (801) 375-3865

Property

Manager: THE BOYER COMPANY, L.C.
 127 SOUTH 500 EAST, SUITE 310
 SALT LAKE CITY, UTAH 84102
 (801) 521-4781/FAX (801) 521-4793

22.5 Captions; Attachments; Defined Terms.

(a) The captions to the section of this Lease are for convenience of reference only and shall not be deemed relevant in resolving questions of construction or interpretation under this Lease.

(b) Exhibits referred to in this Lease, and any addendums and schedules attached to this Lease shall be deemed to be incorporated in this Lease as though part thereof.

22.6 Recording. Tenant may record this Lease or a memorandum thereof with the written consent of Landlord, which consent shall not be unreasonably withheld. Landlord, at its option and at any time, may file this Lease for record with the Recorder of the County in which the Building is located.

22.7 Partial Invalidity. If any provision of this Lease or the application thereof to any person or circumstance shall to any extent be invalid, the remainder of this Lease or the application of such provision to persons or circumstances other than those as to which it is held invalid shall not be affected thereby and each provision of this Lease shall be valid and enforced to the fullest extent permitted by law.

22.8 Broker's Commissions. Tenant represents and warrants that there are no claims for brokerage commissions or finder's fees in connection with this Lease and agrees to indemnify Landlord against and hold it harmless from all liabilities arising from such claim, including any attorneys' fees connected therewith.

22.9 Tenant Defined: Use of Pronouns. The word "Tenant" shall be deemed and taken to mean each and every person or party executing this document as a Tenant herein. If there is more than one person or organization set forth on the signature line as the Tenant, their liability hereunder shall be joint and several. If there is more than one Tenant, any notice required or permitted by the terms of this Lease may be given by or to any one thereof, and shall have the same force and effect as if given by or to all thereof. The use of the neuter singular pronoun to refer to Landlord or Tenant shall be deemed a proper reference even though Landlord or Tenant may be an individual, a partnership, a corporation, or a group of two or more individuals or corporation. The necessary grammatical changes required to make the provisions of this Lease apply in the plural sense where there is more than one Landlord or Tenant and to corporations, associations, partnerships, or individuals, males or females, shall in all instances be assumed as though in each case fully expressed.

22.10 Provisions Binding, Etc. Except as otherwise provided, all provisions herein shall be binding upon and shall inure to the benefit of the parties, their legal representatives, heirs,

successors, and assigns. Each provision to be performed by Tenant shall be construed to be both a covenant and a condition, and if there shall be more than one Tenant, they shall all be bound, jointly and severally, by such provisions. In the event of any sale or assignment (except for purposes of security or collateral) by Landlord of the Building, the Leased Premises, or this Lease, Landlord shall, from and after the Commencement Date (irrespective of when such sale or assignment occurs), be entirely relieved of all of its obligations hereunder.

22.11 Entire Agreement, Etc. This Lease and the Exhibits, Riders, and/or Addenda, if any, attached hereto, constitute the entire agreement between the parties. All Exhibits, riders, or addenda mentioned in this Lease are incorporated herein by reference. Any prior conversations or writings are merged herein and extinguished. No subsequent amendment to this Lease shall be binding upon each party unless reduced to writing and signed. Submission of this Lease for examination does not constitute an option for the Leased Premises and becomes effective as a lease only upon execution and delivery thereof by Landlord to Tenant. If any provision contained in the rider or addenda is inconsistent with a provision in the body of this Lease, the provision contained in said rider or addenda shall control. The captions and Section numbers appearing herein are inserted only as a matter of convenience and are not intended to define, limit, construe, or describe the scope or intent of any section or paragraph.

22.12 Governing Law. The interpretation of this Lease shall be governed by the laws of the State of Utah. The parties hereto expressly and irrevocably agree that either party may bring any action or claim to enforce the provisions of this Lease in the State of Utah, County of Utah, and each party irrevocably consents to personal jurisdiction in the State of Utah for the purposes of any such action or claim. Each party further irrevocably consents to service of process in accordance with the provisions of the laws of the State of Utah. Nothing herein shall be deemed to preclude or prevent the parties hereto from bringing any action or claim to enforce the provisions of this Lease in any other appropriate place or forum.

IN WITNESS WHEREOF, the Landlord and Tenant have executed this Lease on the day first set forth above.

LANDLORD: COVEY CORPORATE CAMPUS ONE, L.L.C.

By _____
KEM C. GARDNER
MANAGER

By _____
STEPHEN M.R. COVEY
MANAGER

TENANT: COVEY LEADERSHIP CENTER, INC.

By _____
STEPHEN
M.R. COVEY
PRESIDENT AND CEO

PROPERTY MANAGER: THE BOYER COMPANY, L.C.

By _____
KEM C. GARDNER
PRESIDENT AND MANAGER

NOTARY

STATE OF UTAH)
)
COUNTY OF SALT LAKE) ss

On this _____ day of _____, 1996, personally appeared before me KEM C. GARDNER, who duly acknowledged to me that he executed the foregoing Lease as the Manager of COVEY CORPORATE CAMPUS ONE, L.L.C.

My commission Expires:

4/28/97

Notary Public
Residing at SALT LAKE COUNTY

STATE OF)
)
COUNTY OF) ss

On this _____ day of _____, 1996, personally appeared before me STEPHEN M.R. COVEY, who duly acknowledged to me that he executed the foregoing Lease as the Manager of COVEY CORPORATE CAMPUS ONE, L.L.C.

Notary Public

STATE OF)
) ss
COUNTY OF)

The foregoing instrument was acknowledged before me on this ___ day of January, 1996, by STEPHEN M.R. COVEY, the President and CEO of COVEY LEADERSHIP CENTER, INC. STEPHEN M.R. COVEY stated that the foregoing instrument was signed on behalf of said Corporation by authority (of its by-laws or pursuant to a resolution of its board of directors) for the purposes and covenants contained therein.

Notary Public

STATE OF UTAH)
) ss
COUNTY OF SALT LAKE)

On this _____ day of _____, 19____, personally appeared before me KEM C. GARDNER, who duly acknowledged to me that he executed the foregoing Lease as the President and Manager of THE BOYER COMPANY, L. C., A UTAH LIMITED LIABILITY COMPANY.

My commission Expires:

4/28/97

Notary Public
Residing at SALT LAKE COUNTY

THIS RIDER IS INCORPORATED INTO THE LEASE AGREEMENT AND MADE A PART THEREOF

A. TENANT'S RIGHT OF FIRST REFUSAL TO PURCHASE BUILDING

Landlord grants to Tenant the right of first refusal exercisable after the Commencement Date during the term of the Lease to purchase the Building (the "Right of First Refusal"). If at any time after the Commencement Date during the term of this Lease Landlord shall desire to accept an offer from a third person to purchase the Building, it shall provide written notice of such intent to Tenant together with a copy of the offer. Tenant shall have twenty (20) days to elect to purchase the Building strictly upon the terms and conditions, including price, as set forth in the offer. If Tenant does not timely exercise the Right of First Refusal, this Right of First Refusal shall expire and Landlord may thereafter sell the Building upon terms and conditions, including price, which are not more favorable to the buyer that is set forth in the offer. This Right of First Refusal shall not apply to a foreclosure sale, trustee's sale or deed in lieu of foreclosure by or to a mortgage lender in respect of the Building.

B. TENANT'S OPTION TO PURCHASE BUILDING

1. Commencing as of the Commencement Date and continuing throughout the term of the Lease, Tenant shall have the right and option to purchase all of Landlord's right, title and interest in the Building upon the terms and conditions set forth in this portion of the Rider (the "Purchase Option"). To exercise this Purchase Option, tenant shall give written notice of exercise to Landlord in the manner provided in the Lease. Tenant may exercise the Purchase Option only if no default, or circumstance which with the giving of notice and/or the passage of time would constitute a default, is then existing.
2. The Purchase Price which Tenant shall pay to Landlord for its entire right, title and interest in the Building (the "Purchase Price") shall be the sum of the following:
 - (a) The amount of any prepayment fee, premium or similar charge incurred by Landlord in discharging any lien or encumbrance which secures any monetary obligation on the Building.
 - (b) the Fair Market Value (as defined below)
3. For purposes of this Purchase Option, the following terms shall have the meanings set forth:
 - (a) "Fair Market Value" means the value of the Building as agreed upon in writing by Landlord and Tenant or, if the Landlord and Tenant cannot agree upon such value within thirty (30) days after the Tenant exercises

the Purchase Option, then either Landlord or Tenant may nominate three (3) qualified, independent appraisers to appraise the Building, each of whom shall:

- (i) be a member in good standing of the Utah Chapter of the Appraisal Institute;
- (ii) be state certified under the Utah Real Estate Appraiser Registration and Certification Act; and
- (iii) shall have not less than five (5) years of experience valuing office buildings in Utah County, Utah.

The other party shall then select one (1) of the nominated appraisers to perform an appraisal to determine the Fair Market Value of the Building. The costs and fees of the appraiser shall be paid in equal shares by Landlord and Tenant. In determining the Fair Market Value it shall be assumed that all liens and encumbrances securing obligations to pay loans or other fixed or determinable sums have been discharged.

4. The closing, pursuant to the Purchase Option, shall occur thirty (30) days after the Purchase Price is determined. At the closing:
- (a) Tenant shall pay the Purchase Price in cash.
 - (b) Landlord shall convey title to the Building to Tenant by special warranty deed and shall be obligated to provide at Landlord's cost a standard owner's policy of title insurance.
 - (c) Landlord shall discharge all liens and encumbrances securing obligations to pay loans or other fixed or determinable sums or obligations owing to mechanics or materialmen. Tenant shall take the Building subject to all other encumbrances and exceptions of record.
 - (d) Landlord shall represent and warrant to the best of its knowledge as to customary matters involving the condition of the Building.
 - (e) Each of the parties shall bear its costs and attorneys' fees in connection with the exercise and closing under the Purchase Option; provided, Landlord shall pay the premium on the policy of title insurance delivered to Tenant, and Landlord and Tenant shall each pay one-half (1/2) of the fees of the escrow agent.

5. If the Tenant exercises the Purchase Option but timely fails to close for any reason other than the fault of Landlord, the Purchase Option shall thereafter expire and shall no longer be enforceable.

AMENDMENT TO LEASE AGREEMENT

THIS LEASE AMENDMENT is made and entered into this 1st day of May 24, 1996 by and between COVEY CORPORATE CAMPUS ONE, L.L.C., hereinafter referred to as the "Landlord" and COVEY LEADERSHIP CENTER, INC., hereinafter referred to as the "Tenant."

RECITALS:

WHEREAS, on the 1st day of January 1996 Landlord and Tenant entered into a certain Lease Agreement providing for the lease by Landlord to Tenant of office space located in a three-story office building (the "Building"), being constructed at approximately 300 West 4800 North, Provo, Utah, for the rental and on terms and conditions more particularly set forth in said Lease; and

WHEREAS, the parties hereto desire to amend the Lease in certain respects.

NOW THEREFORE, for and in consideration of the mutual promises herein contained, the parties hereto agree that the said Lease Agreement shall be and is hereby amended as follows:

1. ARTICLE 1.1(a): The first sentence of Article 1.1(a) of the Lease is hereby amended and restated in its entirety to read as follows:
 - (a) That certain floor area consisting of approximately 56,245 gross rentable square feet (the "Leased Premises"), consisting of 17,567 gross rentable square feet on floor one, 17,350 gross rentable square feet on floor two, 17,058 gross rentable square feet on floor three and 4,270 gross rentable square feet in the basement, in the three-story office building (the "Building") being constructed at approximately 300 West 4800 North, Provo, Utah, on the real property (the "Property") described on Exhibit "A" attached hereto and by this reference incorporated herein.
2. ARTICLE 1.3, CONSTRUCTION OF SHELL BUILDING: The first sentence of Article 1.3 is hereby amended and restated in its entirety to read as follows:

Landlord shall at its own cost and expense construct and complete a three-story, 56,245 gross rentable square foot building and cause all of the construction which is to be performed by it in completing the building and performing its work as set forth on Exhibit "C" to be substantially completed as evidenced by a Certificate of Occupancy, and the Lease Premises ready for Tenant to install its fixtures and equipment and perform its other work as described on Exhibit "C" as soon as reasonably possible but in no event later than January 1, 1997 (the "Target Date").

3. ARTICLE 2.3, CONSTRUCTION OF LEASE PREMISES: The third sentence of Article 2.3 is hereby amended and restated in its entirety to read as follows:

Landlord shall pay \$973,896.00 (\$22.00 per usable square feet multiplied by 44,268 usable square feet as determined by architect) of the cost listed (excluding cost to construct shell building) and tenant shall be obligated for the remaining costs shown on Exhibit "E".

4. ARTICLE 3.1, BASIC ANNUAL RENT: The first sentence of Article 3.1 is hereby amended and restated in its entirety to read as follows:

Tenant agrees to pay the Landlord as Basic Annual Rent (the "Basic Annual Rent") at such place as Landlord may designate the sum of Eight Hundred Ninety Nine Thousand Nine Hundred Twenty and no/100 Dollars (\$899,920.00), which includes the basement storage space.

5. ARTICLE 4.1(c): The second sentence of Article 4.1(c) is hereby amended and restated in its entirety to read as follows:

The estimated costs for the calendar year in which the Lease Commencement commences is \$179,028.00, and are not included in the Basic Annual Rent.

6. EXHIBIT "C", WORK LETTERS, SECTION I, PARAGRAPH 8: The fourth sentence of Paragraph IA of Exhibit "C" is hereby amended and restated in its entirety to read as follows:

Without limiting the generality of the foregoing, preliminary plans shall provide for a three-story building containing 56,245 rentable square feet of space and shall be generally consistent with the Conceptual Plans and Drawings attached hereto as Exhibit "B" and incorporated herein (the "Conceptual Drawings")

7. EXHIBIT "C", WORK LETTERS, SECTION II, PARAGRAPH F: The first sentence of Paragraph IIF of Exhibit "C" is hereby amended and restated in its entirety to read as follows:

Landlord shall pay a tenant finish allowance of \$973,896.00 or \$22.00 per usable square foot which shall be applied toward the total construction cost of the tenant finish.

8. EXHIBIT "E": Exhibit "E" is hereby modified by changing the square footage on the third line of Exhibit "E" from 43,396 to 44,268 and the Landlord Allowance shall be changed from \$954,712.00 to \$973,896.00.

The Lease shall remain in full force and effect as therein stated except as herein modified or amended by this Amendment to Lease Agreement.

IN WITNESS WHEREOF, this Amendment Lease Agreement has been executed the day and year first hereinabove written.

LANDLORD: COVEY CORPORATE CAMPUS ONE, L.L.C.

By _____
Kem C. Gardner
Manager

By _____
Stephen M.R. Covey
Manager

TENANT: COVEY LEADERSHIP CENTER, INC.

By _____
Stephen M.R. Covey
President and CEO

SECOND AMENDMENT TO LEASE AGREEMENT
(BUILDING NO. 1)

THIS SECOND AMENDMENT TO LEASE AGREEMENT (the "Second Amendment") is made effective the 21st day of March, 1997, by and between COVEY CORPORATE CAMPUS ONE, L.L.C., a Utah limited liability company (the "Landlord"), FRANKLIN COVEY CO., a Utah corporation (the "Tenant") and THE BOYER COMPANY, L.C., a Utah limited liability company (the "Property Manager").

RECITALS:

On the 1st day of January, 1996, Landlord and Covey Leadership Center, Inc., a Utah corporation ("CLC") as tenant, entered into a certain Lease Agreement providing for the lease by Landlord to Tenant of office space located in a three-story office building, at approximately 360 West 4800 North, Provo, Utah, for the rental and on terms and conditions more particularly set forth in said Lease. The original Lease Agreement was modified and amended by a written instrument dated May 24, 1996. (The Lease Agreement as modified by the Amendment is collectively referred to in this Second Amendment as the "Existing Lease Agreement".) Effective June 2, 1997, Franklin Covey Co. became the successor in interest to CLC by merger. The parties desire to amend the Existing Lease Agreement as follows:

AGREEMENT:

For and in consideration of the mutual promises herein contained, the receipt and sufficiency of which are hereby acknowledged, the parties agree that the Existing Lease Agreement shall be and is hereby amended as follows:

1. Amendment of Recitals. Delete the third sentence of introductory paragraph of the Existing Lease Agreement (i.e., the sentence that commences with the words "This Lease is made" and ends with the words "July 7, 1995").

2. Amendment to Section 1.1(c). Section 1.1(c) of the Existing Lease Agreement is hereby amended and restated as follows:

(c) The non-exclusive right to use those areas on the Property and on the Adjacent Property (as defined in Section 16 of this Second Amendment) which are designated and suitable for vehicular parking. Landlord represents that One Hundred and Ninety Eight (198) parking stalls are located on the Property and Two Hundred Sixty (260) parking stalls are located on the Adjacent Property. Landlord covenants that Two Hundred and Five (205) parking stalls shall always be available on either the Property or the Adjacent Property for use in connection with the Building by Tenant, its guests, employees and visitors, and that the total number of parking stalls on the Property and the Adjacent Property shall not be less than Four Hundred and Fifty-Six (456) parking stalls.

3. Amendment to Section 2.1. The text of Article 2.1 of the Existing Lease Agreement is hereby amended and restated in its entirety as follows:

2.1 Length of Term. The term of this Lease shall be for a period which commences as of the Commencement Date and shall continue until November 30, 2009 (the "Expiration Date").

4. Amendment to Section 4.1. Section 4.1(a) of the Existing Lease Agreement is amended as follows:

(a) In line 17 of Section 4.1(a), insert a closing parentheses between "gardening" and before the next comma.

(b) In Line 19, insert the words "per annum" after the words "one percent (1%)" and before the words "of Direct Costs."

(c) In line 33, insert the words "described in Section 8.1" between the words "expenses" and "which."

5. Amendment of Section 6.2(c). Section 6.2(c) of the Existing Lease Agreement is amended in its entirety to read as follows:

(c) Adversely overload the floors or otherwise damage the structural soundness of the Leased Premises or Building or any part thereof.

6. Amendment of Section 7.1 of Existing Lease Agreement. The first paragraph of Section 7.1 of the Existing Lease Agreement is hereby amended in its entirety to read as follows:

7.1 Obligations of Landlord. Except for the specific services and costs described herein, Landlord shall provide all services and pay for all costs associated with the normal operation and maintenance of the Leased Premises at a level consistent with services and maintenance provided by lessors with respect to similar buildings located in Provo, Utah. Therefore, during the term of this Lease the Landlord shall cause to be furnished to the Leased Premises during normal operating hours the general services described in Section 4.1(a) above, the cost and expense of which shall be included in Direct Costs. For the purposes of this Lease, normal operating hours for the Leased Premises are from 7:00 a.m. to 6:00 p.m., Monday through Friday. These services include without limitation the following:

The balance of Section 7.1, consisting of subsections (a) through (h), is not altered.

7. Amendment of Section 7.2 of Existing Lease Agreement. Section 7.2 of the Existing Lease Agreement is hereby amended in its entirety to read as follows:

7.2 Tenant's Election. Tenant may at any time after the first year of the lease term elect to reduce or to terminate Landlord's obligation to provide the services described in Section 7.1 by giving written notice of such election to Landlord not less than sixty (60) days before the date upon which such change is to be effective. From and after the effective date of any election of termination, Tenant shall provide all services described in Section 7.1 in a good and workmanlike manner, consistent with property management practices for similar buildings in the same geographic area, and Landlord shall have no further obligation to provide any service described in the first sentence of this Section 7.1. Further, should Tenant elect to terminate Landlord's obligation to provide the services described in Section 7.1, the management fee as described in Section 4.1(a) shall be reduced to one percent (1%) per annum of Basic Annual Rent and shall be paid to the Property Manager; provided, if upon exercise of remedies by a Mortgagee, The Boyer Company, L.C. is no longer the Property Manager, the fee shall be equal to a reasonable management fee for services then provided by Landlord not to exceed two percent (2%) per annum.

8. Amendment of Section 8.1 of Existing Lease Agreement. Section 8.1 of the Existing Lease Agreement is hereby amended in its entirety to read as follows:

8.1 Maintenance and Repairs by Landlord. The Landlord shall maintain in good order, condition and repair the structural components of the Leased Premises including, without limitation, roof, exterior walls and foundations, as well as all repairs covered under construction warranties; provided if the Landlord is required to make structural repairs by reason of Tenant's negligent acts or omissions, Tenant shall pay the costs for making such repairs.

9. Amendment of Section 10.1 of Existing Lease Agreement. Section 10.1 of the Existing Lease Agreement is hereby amended in its entirety as follows:

10.1 Indemnification. Tenant shall indemnify, defend and hold harmless Landlord from and against any and all suits, actions, damages, claims, liabilities and expenses (the "Claims") in connection with loss of life, bodily or personal injury or property damage occurring in, on or about the Leased Premises except for Claims arising from the acts or omissions of Landlord or the agents, representatives or employees of Landlord. Landlord shall indemnify, defend and hold harmless Tenant from and against any Claims arising from the acts or omissions of Landlord or the agents, representatives or employees of Landlord. Notwithstanding the provisions of this Section, neither party shall be liable to the other to the extent Claims are paid by insurance proceeds. All insurance policies maintained by Landlord and Tenant shall include a waiver of subrogation endorsement which specifies that the insurance carried shall waive any right of subrogation against Tenant or Landlord, as the case may be.

10. Amendment of Section 11.2 of the Existing Lease Agreement. Section 11.2 of the Existing Lease Agreement is amended to provide that the limit of coverage of the insurance policy provided by Tenant shall be not less than \$2,000,000.00.

11. New Section 11.5 of Existing Lease Agreement. A new Section 11.5 is added to the Existing Lease Agreement which shall read as follows:

11.5 Insurance. Landlord shall obtain and maintain all insurance Landlord deems appropriate for the Building and the premiums for such insurance shall constitute a Direct Cost.

12. Amendment of Section 13.2 of Existing Lease Agreement. The third line of Section 13.2 of the Existing Lease Agreement is amended to insert the words "as reasonably determined by Tenant" after the words "business of Tenant" and before the next comma.

13. Amendment of Section 15.3 of Existing Lease Agreement. Section 15.3 of the Existing Lease Agreement is amended to provide that Tenant shall furnish to Landlord and Mortgagee such information as Landlord or any Mortgagee may reasonably request to verify the financial condition of Tenant including balance sheets, income and cash flows. Such statements shall be provided to Landlord and any Mortgagee on a quarterly and annual basis. Annual statements shall be audited by an independent certified public accountant. Notwithstanding the foregoing, during such periods as Tenant is a reporting company under the Securities Exchange Act of 1934, the Tenant shall be exempt from the foregoing requirements but in lieu thereof shall provide its most current annual report to Landlord and any Mortgagee promptly after the same is released.

14. Amendment of Section 17.1 of Existing Lease Agreement. Section 17.1 of the Existing Lease Agreement is amended in its entirety to read as follows:

17.1 Surrender of Premises. At the expiration of this Lease, except for changes made by Tenant that were approved by Landlord, Tenant shall surrender the Leased Premises in the same condition, less reasonable wear and tear, as they were in upon delivery of possession thereto under this Lease and shall deliver all keys to Landlord. Before surrendering the Leased Premises, Tenant shall remove all of its personal property and trade fixtures and such property or the removal thereof shall in no way damage the Leased Premises, and Tenant shall be responsible for all costs, expenses and damages incurred in the removal thereof. If Tenant fails to remove its personal property and fixtures upon the expiration of this Lease, then, at Landlord's election:

(a) the same shall be deemed abandoned and shall become the property of Landlord; or

(b) Landlord may remove for the account and benefit of Tenant such personal property and fixtures at the cost and expense of Tenant and store the same at Tenant's cost and expense.

15. Amendment of Right of First Refusal Rider. The right of first refusal set forth as Part A of the Rider to the Existing Lease Agreement shall not be exercisable with respect to any of the following proposed conveyances or transfers:

(a) A judicial foreclosure sale or trustee's sale with respect to a Mortgage; or

(b) A deed-in-lieu of judicial foreclosure or trustee's sale with respect to a Mortgagee.

16. Amendment of Option. The option set forth as Part B of the Rider to the Existing Lease Agreement shall be exercised only if Tenant simultaneously exercises the similar option granted Tenant under that certain Lease Agreement dated October 29, 1996 between Landlord and Tenant providing for the lease by Landlord to Tenant of office space located in a three-story office building adjacent to the Building at approximately 466 West 4800 North, Provo, Utah (the "Adjacent Property"). In addition, such option shall be exercised only if Tenant is not in default under the Existing Lease Agreement.

17. Assumption by Franklin Covey Co. Franklin Covey Co. assumes the obligations of "Tenant" under the Existing Lease Agreement as amended by this Second Amendment.

18. Master Declaration. The following new Section 6.3(c) is added to the Existing Lease Agreement:

The terms of the Original Lease Agreement shall be subject in all respects to, and the Tenant shall comply with, the provisions of that certain Master Declaration of Protective Covenants and Restrictions for Riverwoods Research and Business Park recorded October 24, 1991, as Entry No. 42273, in Book 2847, at Page 618 of the official records of Utah County (the "Master Declaration") any applicable Supplementary Declaration, the Articles, the Bylaws and the Association Rules (as all of those terms are defined in the Master Declaration). Any failure of Tenant to so comply shall constitute a default hereunder.

19. Substitution of Exhibit "A". The "Legal Description of Property" set forth on Exhibit "A" attached to the Existing Lease Agreement is amended and replaced in its entirety as follows:

Beginning at a point which is South 2546.19 feet, and West 1534.50 feet, from the Northeast Corner of Section 13, Township 6 South, Range 2 East, Salt Lake Base and Meridian; thence South 72(degree)15'49" West 265.89 feet; thence South 72(degree)27'59" West 175.99 feet; thence due North 425.36 feet; thence North 72(degree)15'49" East 450.77 feet; thence South 10(degree)19'19" West 126.40 feet; thence on a 428.00 foot

41 radius curve to the left 121.29 feet, having a central angle of 16(degrees)14'15" and whose long chord bears South 02(degrees)12'12" West 120.89 feet; thence South 05(degrees)54'56" East 184.49 feet to the point of beginning.

20. Ratification. In the event of any inconsistency between this Second Amendment and the Existing Lease Agreement, the provisions of this Second Amendment shall control. Except as amended by this Second Amendment, the Existing Lease Agreement is ratified and affirmed.

IN WITNESS WHEREOF, this Second Amendment to the Existing Lease Agreement has been executed the day and year first hereinabove written.

"LANDLORD"

COVEY CORPORATE CAMPUS ONE, L.L.C.,
a Utah limited liability company

By -----
Kem C. Gardner
Manager

By -----
Stephen M.R. Covey
Manager

"TENANT"

FRANKLIN COVEY CO., a Utah corporation

By -----
Val John Christensen
Executive Vice President

"PROPERTY MANAGER"

THE BOYER COMPANY, L.C., a Utah limited
liability company

By -----
Kem C. Gardner
Its President and Manager

LEASE AGREEMENT

LANDLORD: COVEY CORPORATE CAMPUS TWO, L.L.C.

TENANT: COVEY LEADERSHIP CENTER, INC.

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SIGNATURES
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RIDER Yes No
GUARANTY Yes No

EXHIBIT "A" DESCRIPTION OF REAL PROPERTY
EXHIBIT "B" FLOORPLAN OF LEASED PREMISES
EXHIBIT "C" WORK LETTER-CONSTRUCTION AND/OR FINISH OF
IMPROVEMENTS TO LEASED PREMISES
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EXHIBIT "E" COST TO CONSTRUCT LEASED PREMISES

LEASE AGREEMENT

COVEY LEADERSHIP OFFICE BUILDING II

THIS LEASE AGREEMENT (the "Lease") is made and entered into as of this _____ day of October, 1996 by and between COVEY CORPORATE CAMPUS TWO, L.L.C. (the "Landlord"), and COVEY LEADERSHIP CENTER, INC. (the "Tenant"). THE BOYER COMPANY, L. C. (the "Property Manager") is also a party to this Lease for the limited purpose of providing the property management services described herein.

For and in consideration of the rental to be paid by tenant and of the covenants and agreements herein set forth to be kept and performed by Tenant, Landlord hereby leases to Tenant and Tenant hereby leases from Landlord, the Leased Premises (as hereafter defined), at the rental and subject to and upon all of the terms, covenants and agreements hereinafter set forth.

I. PREMISES

1.1 Description of Premises. Landlord does hereby demise, lease and let unto Tenant, and Tenant does hereby take and receive from Landlord the following:

(a) That certain floor area containing approximately 62,916 gross rentable square feet (the "Leased Premises"), on Floors One, Two and Three (includes 4,719 square feet in the basement) of the three-story office building (the "Building") being constructed at approximately 350 West 4800 North, Provo, Utah, on the real property (the "Property") described on Exhibit "A" attached hereto and by this reference incorporated herein. The space occupied by Tenant consists of the entire Building, as set forth on Exhibit "B" which is attached hereto and by this reference incorporated herein.

(b) Such non-exclusive rights-of-way, easements and similar rights with respect to the Building and Property as may be reasonably necessary for access to and egress from, the Leased Premises.

(c) The exclusive right to use those areas designated and suitable for vehicular parking, including the exclusive right to the use of Two Hundred Fifty-one (251) parking stalls.

1.2 Work of Improvement. The obligation of Landlord and Tenant to perform the work and supply the necessary materials and labor to prepare the Leased Premises for occupancy are described in detail on Exhibit "C". Landlord and Tenant shall expend all funds and do all acts required of them as described on Exhibit "C" and shall perform or have the work performed promptly and diligently in a first class and workmanlike manner.

1.3 Construction of Shell Building. Landlord shall, at its own cost and expense, construct and complete a three story 62,916 gross rentable square foot building and cause all of the construction which is to be performed by it in completing the Building and performing its work as set forth on Exhibit "C", to be substantially completed as evidenced by a Certificate of Occupancy, and the Leased Premises ready for Tenant to install its fixtures and equipment and to perform its other work as described on Exhibit "C" as soon as reasonably possible, but in no event later than July 1, 1997 ("Target Date"). In the event that Landlord's construction of obligation has not been fulfilled upon the expiration of the "Target Date", Tenant shall have the right to exercise any right or remedy available to it under this Lease, including the right to terminate this Lease and the right to charge Landlord and cause Landlord to pay any increased costs associated with Tenant's current leases due to holding over in such space or moving to temporary space; provided that under no circumstances shall Landlord be liable to Tenant resulting from delay in construction covered by circumstances beyond Landlord's direct control.

II. TERM

2.1 Length of Term. The term of this Lease shall be for a period of twenty (20) years plus the partial calendar month, if any, occurring after the Commencement Date (as hereinafter defined) if the Commencement Date occurs other than on the first day of a calendar month.

2.2 Commencement Date; Obligation to Pay Rent. The term of this Lease and Tenant's obligation to pay rent hereunder shall commence on the first to occur of the following dates ("Commencement Date"): (Projected to be July 1, 1997)

(a) The date Tenant occupies the Premises and conducts business.

(b) The date fifteen (15) days after the Landlord, or Landlord's supervising contractor, notified Tenant in writing that Landlord's construction obligations respecting the Leased Premises have been fulfilled and/or that the Leased Premises are ready for occupancy and/or performance of Tenant's work. Such notice shall be accompanied by an occupancy permit and a certificate from the Building Architect stating that remaining punchlist items can be completed within fifteen (15) days and will not materially interfere with Tenant's business. Prior to Commencement Date, it is contemplated that Tenant shall be able to perform its construction obligation as per Exhibit C II(H).

2.3 Construction of Leased Premises. Landlord shall provide a budget prior to the commencement of construction of the Leased Premises (see Exhibit "E"). Landlord shall itemize each part of the construction and its associated estimated cost. Landlord shall pay an amount equal to \$1,099,010 or \$22.00 per usable square foot (on 49,955 usable square feet excluding the basement space of 4,719 square feet) of the cost listed (excluding cost to construct Shell Building) and Tenant shall be obligated for the remaining costs shown on

Exhibit "E". Landlord shall not be obligated to pay for any increase in the actual cost of construction over and above the construction costs shown on Exhibit "E". Any special decorator items, equipment, furniture or furnishings not designated on Exhibit "E", as well as changes initiated by the Tenant to the Leased Premises, shall be the sole cost of Tenant and shall include the defined extras on Exhibit "E."

2.4 Renewal Option. If this Lease then remains in full force and effect, Tenant shall have the option to renew this Lease for two five year options commencing on the expiration date. Each option must be exercised by written notice to Landlord one hundred and eighty (180) days before the expiration of the previous term and once exercised is irrevocable. Base rent during each renewal term shall be determined pursuant to Section 3.1 below.

2.5 Acknowledgment of Commencement Date. Landlord and Tenant shall execute a written acknowledgment of the commencement Date in the form attached hereto as Exhibit "D".

III. BASIC RENTAL PAYMENTS

3.1 Basic Annual Rent. Tenant agrees to pay to Landlord as basic annual rent (the "Basic Annual Rent") at such place as Landlord may designate, without prior demand therefore and without any deduction or set off whatsoever, the sum of One Million Six Thousand Six Hundred Fifty-Six and no/100 Dollars (\$1,006,656.00) which includes the basement storage space. Said Basic Annual Rent shall be due and payable in twelve (12) equal monthly installments to be paid in advance on or before the first day of each calendar month during the term of the Lease. Basic Annual Rent shall escalate at the beginning of the 4th year and every three (3) years thereafter using a 3% annually compounded rate or the change in the All Urban Index, whichever is higher. For purposes of this Lease the term "All Urban Index" shall mean the Consumer Price Index for All Urban Consumers-U.S. City Average-all Items (1982-1984 equals 100 base) as published by the United States Bureau of Labor Statistics or any successor agency or any other index hereinafter employed by the Bureau of Labor Statistics in lieu of said index. The price index for the 3rd month preceding the month in which the Lease commences shall be considered the Basic Price Index. Therefore, the beginning of the 4th year and every three years thereafter, the Basic Annual Rental set forth in Section 3.1 shall be adjusted by multiplying such rental by a fraction, the numerator of which is the Price Index for the 3rd month preceding the beginning of the 4th year and the denominator of which is the Basic Price Index. The above notwithstanding, the maximum increase at the beginning of the 4th year shall be no more than 15.76% which is 5% per year compounded, and likewise on every adjustment date hereafter, the maximum increase shall be limited as described herein.

In no event shall Basic Annual Rent be reduced. In the event the Commencement Date occurs on a day other than the first day of a calendar month, then rent shall be paid on the Commencement Date for the initial fractional calendar month prorated on a per-diem basis (based upon a thirty (30) day month).

3.2 Additional Monetary Obligations. Tenant shall also pay as rental (in addition to the Basic Annual Rent) all other sums of money as shall become due and payable by Tenant to Landlord

under this Lease. Landlord shall have the same remedies in the case of a default in the payment of said other sums of money as are available to Landlord in the case of a default in the payment of one or more installments of Basic Annual Rent.

IV. ADDITIONAL RENT

4.1 Basic Annual Rent. It is the intent of both parties that the Basic Annual Rent herein specified shall be absolutely net to the Landlord throughout the term of this Lease, and that all costs, expenses and obligations relating to Tenant's pro rata share of the Building, Property and/or Building, Property and/or Leased Premises which may arise or become due during the term shall be paid by Tenant in the manner hereafter provided.

For purposes of this Part IV and the Lease in general, the following words and phrases shall have the meanings set forth below:

(a) "Direct Costs" shall mean all actual costs and expenses incurred by the Property Manager or Landlord in connection with Landlord's ownership, operation, management and maintenance of the Building and Property and related improvements located thereon (the "Improvements"), including, but not limited to, all expenses incurred by Landlord or the Property Manager as a result of their compliance with any and all of their obligations under this Lease other than the performance by Landlord of its work under Sections 1.2, 1.3 and 2.3 of this Lease. In explanation of the foregoing, and not in limitation thereof, Direct Costs shall include: all real property taxes and assessments (whether general or special, known or unknown, foreseen or unforeseen) and any tax or assessment levied or charged in lieu thereof, whether assessed against Landlord and/or Tenant and whether collected from Landlord and/or Tenant; snow removal, dumpster service, insurance, license, permit and inspection fees, cost of services of independent contractors, cost of compensation (including employment taxes and fringe benefits) of all persons who perform regular and recurring duties connected with day-to-day operation, maintenance, repair, and replacement of the Building, its equipment and the adjacent walk, and landscaped area (including, but not limited to gardening, security, parking, elevator, painting, plumbing, electrical, mechanical, carpentry, structural and roof repairs and reserves (the Property Manager may collect in advance up to one percent (1%) of Direct Costs as a reserve), signing and advertising, and rental expense or a reasonable allowance for depreciation of personal property used in the maintenance, operation and repair of the Building. Direct costs shall also include property management fees, which property management fees shall be equal to a percentage of Tenant's Basic Annual Rent and Estimated Costs, which percentage shall not exceed two and one half percent (2 1/2%) of the sum of Basic Annual Rent and Direct Costs and shall be paid to the Property Manager. However, Tenant shall pay the actual costs of water, sewer, gas and electrical power directly to the municipal supplier of same. Direct Costs shall not include expenses incurred in connection with leasing, renovating, or improving space for tenants or other occupants or prospective tenants or occupants of the Building, expenses incurred for repairs resulting from damage by fire, windstorm or other casualty, to the extent such repairs are paid for by insurance proceeds, expenses paid by any tenant directly to third parties, or

as to which Landlord is otherwise reimbursed by any third party or Tenant; expenses which, by generally accepted accounting principles, are treated as capital items except that if, as a result of governmental requirements, laws or regulations, Landlord shall expend monies directly or indirectly for improvements, additions or alterations to the Building which, by generally accepted accounting principles, are treated as a capital expenditures, the amortization of such capital expenditures based on a life acceptable to the appropriate taxing authority together with interest at the rate of 9% per annum shall be considered Direct Costs. The foregoing notwithstanding, Direct Costs shall not include depreciation on the Building and Tenant Finish, and amounts paid toward principal or interest of loans of Landlord.

(b) "Estimated Costs" shall mean the projected amount of Tenant's Direct Costs, excluding the costs of electricity provided to Tenant's Leased Premises. The Estimated Costs for the calendar year in which the Lease commences are \$200,072.00, and are not included in the Basic Annual Rent. If the Estimated Costs as of the date Tenant takes occupancy are greater than Tenant's Estimated Costs at the time this Lease is executed, the Estimated Costs shall be increased to equal the Estimated Costs as of the date of Tenant's occupancy.

4.2 Report of Direct Costs and Statement of Estimated Costs.

(a) After the expiration of each calendar year occurring during the term of this Lease, the Property Manager shall furnish Tenant a written statement of Tenant's Direct Costs occurring during the previous calendar year. The written statement shall specify the amount by which Tenant's Direct Costs exceed or are less than the amounts paid by Tenant during the previous calendar year pursuant to Section 4.3(b) below.

(b) At the same time specified in Section 4.2(a) above, Landlord shall furnish Tenant a written statement of the Estimated Costs for the then current calendar year.

4.3 Payment of Costs. Tenant shall pay the Direct Costs as follows:

(a) Each month Tenant shall pay to the Property Manager, without offset or deduction, one-twelfth (1/12th) of the Estimated Costs as defined in Sections 4.1(b) and 4.2(b) above.

(b) Within thirty (30) days after delivery of the written statement referred to in section 4.2(a) above, Tenant shall pay to the Property Manager the amount by which Tenant's Direct Costs, as specified in such written statements, exceed and aggregate of such costs actually paid by Tenant for the year at issue. Tenant shall have the right to audit the Property Manager's books upon reasonable notice. Tenant shall pay costs associated with the audit unless Tenant finds that the Property Manager has inflated expenses by more than ten percent (10%), in which case, the Property Manager will pay audit charges. Payments by Tenant shall be made pursuant to this Section 4.3(b) notwithstanding that a statement pursuant to Section 4.2(a) is furnished to Tenant after the expiration of the term of this Lease.

(c) If the annual statement of costs indicates that the Estimated Costs paid by Tenant pursuant to subsection (b) above for any year exceeded Tenant's actual Direct Costs for the same year, the Property Manager shall promptly pay the amount of such excess to Tenant.

4.4 Resolution of Disagreement. Every statement given by the Property Manager pursuant to Section 4.2 shall be conclusive and binding upon Tenant unless within sixty (60) days after the receipt of such statement Tenant shall notify the Property Manager that it disputes the correctness thereof, specifying the particular respects in which the statement is claimed to be incorrect. If such dispute shall not have been settled by agreement, the parties hereto shall submit the dispute to arbitration within ninety (90) days after Tenant's receipt of statement. Pending the determination of such dispute by agreement or arbitration as aforesaid, Tenant shall, within thirty (30) days after receipt of such statement, pay in accordance with the Property Manager's statement, and such payment shall be without prejudice to Tenant's position. If the dispute shall be determined in Tenant's favor, the Property Manager shall forthwith pay Tenant the amount of Tenant's overpayment resulting from compliance with the Property Manager's statement, including interest on disputed amounts at prime plus two percent (2%). Landlord agrees to grant Tenant reasonable access to the Property Manager's books and records for the purpose of verifying Direct Costs for operating expenses incurred by the Property Manager.

4.5 Limitations. Nothing contained in this Part IV shall be construed at any time so as to reduce the monthly installments of Basic Annual Rent payable hereunder below the amount set forth in Section 3.1 of this Lease.

V. SECURITY DEPOSIT: NONE

VI. USE

6.1 Use of Leased Premises. The Leased Premises shall be used and occupied by Tenant for general office purposes only and for no other purpose whatsoever without the prior written consent of Landlord.

6.2 Prohibition of Certain Activities or Uses. The Tenant shall not do or permit anything to be done in or about, or bring or keep anything in the Leased Premises which is prohibited by this Lease or will, in any way or to any extent:

(a) Adversely affect any fire, liability or other insurance policy carried with respect to the Building, the Leased Premises or any of the contents of the Building (except with Landlord's express written permission, which will not be unreasonably withheld, but which may be contingent upon Tenant's agreement to bear any additional costs, expenses or liability for risk that may be involved).

(b) Conflict with or violate any law, statute, ordinance, rule, regulation or requirement of any governmental unit, agency or authority (whether existing or enacted as promulgated in the future, known or unknown, foreseen or unforeseen).

(c) Adversely overload the floors or otherwise damage the structural soundness of the Leased Premises or Building, or any part thereof (except with Landlord's express written permission, which will not be unreasonably withheld, but which may be contingent upon Tenant's agreement to bear any additional costs, expenses or liability for risk that may be involved).

6.3 Affirmative Obligations with Respect to Use.

(a) Tenant will comply with all governmental laws, ordinances, regulations, and requirements, now in force or which hereafter may be in force, of any lawful governmental body or authorities having jurisdiction over the Leased Premises, will keep the Leased Premises and every part thereof in a clean, neat, and orderly condition, free of objectionable noise, odors, or nuisances, will in all respects and at all times fully comply with all applicable health and policy regulations, and will not suffer, permit, or commit any waste.

(b) At all times during the term hereof, Tenant shall, at Tenant's sole cost and expense, comply with all statutes, ordinances, laws, orders, rules, regulations and requirements of all applicable federal, state, county, municipal and other agencies or authorities, now in effect or which may hereafter become effective, which shall impose any duty upon Landlord or Tenant with respect to the use, occupation or alterations of the Leased Premises (including, without limitation, all applicable requirements of the Americans with Disabilities Act of 1990 and all other applicable laws relating to people with disabilities, and all rules and regulations which may be promulgated thereunder from time to time and whether relating to barrier removal, providing auxiliary aids and services or otherwise) and upon request of Landlord shall deliver evidence thereof to Landlord.

6.4 Suitability. The Leased Premises, Building and Improvements (and each and every part thereof) shall be deemed to be in satisfactory condition unless, within sixty (60) days after the Commencement Date, Tenant shall give Landlord written notice specifying, in reasonable detail, the respects in which the Leased Premises, Building or Improvements are not in satisfactory condition. Landlord further provides warranties as provided in Exhibit C II paragraphs C and E.

6.5 Personal Property Taxes. Tenant shall pay all taxes, assessments, charges, and fees which during the term hereof may be imposed, assessed or levied by any governmental or public authority against or upon Tenant's use of the Leased Premises or any personal property or fixture kept or installed therein by Tenant.

VII. UTILITIES AND SERVICE

7.1 Obligations of Property Manager. Except for the specific services and costs described herein, the parties intend that the Property Manager (as the Landlord's agent) shall provide all services and pay for all costs associated with the normal operation and maintenance of the Leased Premises at a level consistent with services and maintenance provided by the Property Manager with respect to similar buildings located in Provo, Utah. Therefore, during the term of this Lease the Property Manager agrees to cause to be furnished to the Lease Premises during normal operating hours the general services described in Section 4.1(a) above, the cost and expense of which shall be included in Direct Costs. For the purposes of this Lease, normal operating hours for the Leased Premises are from 7:00 a.m. to 6:00 p.m., Monday through Friday. These services include without limitation the following:

- (a) Telephone connection to the building, but not including telephone stations and equipment (it being expressly understood and agreed that Tenant shall be responsible for the ordering and installation of telephone lines and equipment which pertain to the Leased Premises).
- (b) Heating and air-conditioning during normal operating hours to such extent and to such levels as is reasonably required for the comfortable use and occupancy of the Leased Premises subject however to any limitations imposed by any government agency.
- (c) Security (including the lighting of common halls, stairways, entries and restrooms) to such extent as is usual and customary in similar buildings in Provo, Utah.
- (d) Snow removal service.
- (e) Landscaping and groundskeeping service.
- (f) Elevator service.
- (g) Dumpster service.
- (h) Parking lot maintenance.

7.2 Tenant's Election. Tenant may at any time after the first year of the lease term elect to reduce or to terminate Landlord's and the Property Manager's obligation to provide the services described in Section 7.1, by giving written notice of such election to Landlord and to the Property Manager not less than sixty (60) days before the date upon which such change is to be effective. From and after the effective date of any election of termination, Landlord and the Property Manager shall have no further obligation to provide any service described in the first sentence of this Section 7.1. Further, should Tenant elect to terminate Landlord's and the Property Manager's obligation, the management fee as described in Section 4.1(b) shall be reduced to 1% of Basic Annual Rent and shall be paid to the Property Manager.

7.3 Tenant's Obligations. Tenant shall arrange for and shall pay the entire cost and expense of (a) all telephone stations, equipment and use charges, electric light bulbs (but not fluorescent bulbs used in fixtures originally installed in the Leased Premises); (b) janitorial services for the Leased Premises; water, sewer, gas and electrical power for the Leased Premises; and (c) personal property taxes (as provided in Section 6.5 above).

7.4 Additional Limitations. If and where heat generating machines devices are used in the Leased Premises which affect the temperature otherwise maintained by the air conditioning system, Landlord reserves the right with Tenant's concurrence to install additional or supplementary air conditioning units for the Leased premises, and the entire cost of installing, operating, maintaining and repairing the same shall be paid by Tenant to Landlord promptly after demand by Landlord.

7.5 Limitation on Landlord's Liability. Landlord shall not be liable for and Tenant shall not be entitled to terminate this Lease or to effectuate any abatement or reduction of rent by reason of Landlord's or the Property Manager's failure to provide or furnish any of the foregoing utilities or services if such failure was reasonably beyond the control of Landlord or the Property Manager. In no event shall Landlord or the Property Manager be liable for loss or injury to persons or property, however, arising or occurring in connection with or attributable to any failure to furnish such utilities or services even if within their control except in the event of their negligence.

VIII. MAINTENANCE AND REPAIRS; ALTERATIONS; ACCESS

8.1 Maintenance and Repairs by Property Manager. The Property Manager at its sole cost shall maintain in good order, condition and repair the structural components of the Leased Premises, including without limitation roof, exterior walls and foundations, as well as all repairs covered under construction warranties provided if the Property Manager is required to make structural repairs by reason of Tenant's negligent acts or omissions, Tenant shall pay the costs for making such repairs.

8.2 Maintenance and Repairs by Tenant. Tenant, at Tenant's sole cost and expense and without prior demand being made, shall maintain the Leased Premises in good order, condition and repair, and will be responsible for the painting, carpeting or other interior design work of the Leased Premises beyond the initial construction phase as specified in Section 2.3 and Exhibit "C" and "E" of the Lease and shall maintain all equipment and fixtures installed by Tenant. If repainting or recarpeting is required and authorized by Tenant, the cost for such are the sole obligation of Tenant and shall be paid for by Tenant immediately following the performance of said work and a presentation of an invoice for payment.

8.3 Alterations. Tenant shall not make or cause to be made any alterations, additions or improvements or install or cause to be installed any fixtures, signs, floor coverings, interior or exterior lighting, plumbing fixtures, or shades or awnings, or make any other changes to the Leased Premises without first obtaining Landlord's written approval, which approval shall not be unreasonably withheld. Tenant shall present to the Landlord plans and specifications for such work at the time approval is sought. In the event Landlord consents to the making of any alterations,

additions, or improvements to the Leased Premises by Tenant, the same shall be made by Tenant at Tenant's sole cost and expense. All such work with respect to any alterations, additions, and changes shall be done in a good and workmanlike manner and diligently prosecuted to completion such that, except as absolutely necessary during the course of such work, the Leased Premises shall at all times be a complete operating unit. Any such alterations, additions, or changes shall be performed and done strictly in accordance with all laws and ordinances relating thereto. In performing the work or any such alterations, additions, or changes, Tenant shall have the same performed in such a manner as not to obstruct access to any portion of the Building. Any alterations, additions, or improvements to or of the Leased Premises, including, but not limited to, wallcovering, paneling, and built-in cabinet work, but excepting movable furniture and equipment, shall at once become a part of the realty and shall be surrendered with the Premises, unless Landlord and Tenant agree at any time that the specific improvement may be removed by Tenant at the end of the Term provided Tenant restores the premises to its original condition, wear and tear excepted.

8.4 Landlord's Access to Leased Premises. Landlord shall have the right to place, maintain, and repair all utility equipment of any kind in, upon, and under the Leased Premises as may be necessary for the servicing of the Leased Premises and other portion of the Building. Landlord shall upon providing adequate notice to Tenant, also have the right to enter the Leased Premises at all times to inspect or to exhibit the same to prospective purchasers, mortgagees, tenants, and lessees, and to make such repairs, additions, alterations, or improvements as Landlord may deem desirable. Landlord shall be allowed to take all material upon said Leased Premises that may be required therefor without the same constituting an actual or constructive eviction of Tenant in whole or in part and the rents reserved herein shall in no wise abate while said work is in progress by reason of loss or interruption of Tenant's business or otherwise, and Tenant shall have no claim for damages unless due to Landlord negligence. During the three (3) months prior to expiration of this Lease or of any renewal term, Landlord may place upon the Leased Premises "For Lease" or "For Sale" signs which Tenant shall permit to remain thereon.

IX. ASSIGNMENT

9.1 Assignment Prohibited. Tenant shall not transfer, assign, mortgage, or hypothecate this Lease, in whole or in part, or permit the use of the Leased Premises by any person or persons other than Tenant, or sublet the Leased Premises, or any part thereof, without the prior written consent of Landlord in each instance, which consent shall not be unreasonably withheld, provided sufficient information is provided to Landlord to accurately represent the financial condition of those to whom this Lease will be transferred, assigned, mortgaged, or hypothecated. Such prohibition against assigning or subletting shall include any assignment or subletting by operation of law. Any transfer of this Lease from the Tenant by merger, consolidation, transfer of assets, or liquidation shall constitute an assignment for purposes of this Lease. In the event that Tenant hereunder is a corporation, an unincorporated association, or a partnership, the transfer, assignment, or hypothecation of any stock or interest in such corporation, association, or partnership in the aggregate in excess of forty-nine percent (49%) in any one-year period shall be deemed an assignment within the meaning of this Section. The above prohibition of assignment will not apply in the case of a

registered offering of shares by Tenant or the public trading of registered shares subsequent to an initial offering.

9.2 Consent Required.

(a) Any assignment or subletting without Landlord's consent shall be void, and shall constitute a default hereunder which, at the option of Landlord, shall result in the termination of this Lease or exercise of Landlord's other remedies hereunder. Consent to any assignment or subletting shall not operate as a waiver of the necessity for consent to any subsequent assignment or subletting, and the terms of such consent shall be binding upon any person holding by, under, or through Tenant.

(b) Landlord shall have no obligation to consent to the proposed sublease or assignment if the proposed sublessee or assignee or its business is or may be subject to compliance with additional requirements of the law, including any related rules or regulations, commonly known as the "Americans with Disabilities Act of 1990" or similar state or local laws relating to persons with disabilities beyond those requirements which are applicable to the tenant desiring to so sublease or assign".

9.3 Landlord's Right in Event of Assignment. If this Lease is assigned or if the Leased Premises or any portion thereof are sublet or occupied by any person other than the Tenant, Landlord may collect rent and other charges from such assignee or other party, and apply the amount collected to the rent and other charges reserved hereunder, but such collection shall not constitute consent or waiver of the necessity of consent to such assignment, subleasing, or other transfer, nor shall such collection constitute the recognition of such assignee, sublessee, or other party as the Tenant hereunder or a release of Tenant from the further performance of all of the covenants and obligations, including obligation to pay rent, of Tenant herein contained. In the event that Landlord shall consent to a sublease or assignment hereunder, Tenant shall pay to Landlord reasonable fees, not to exceed \$100.00, incurred in connection with processing of documents necessary to the giving of such consent. In the event Landlord consents to the assignment as provided by paragraph 9.1, then Tenant shall be released from further performance of any covenant and obligation under this Lease.

X. INDEMNITY

10.1 Indemnification. Tenant and Landlord shall indemnify each other and save each other harmless from and against any and all suits, actions, damage and claims, liability and expense in connection with loss of life, bodily or personal injury, or property damage arising from or out of any occurrence in, upon, at or from the Leased Premises, or occasioned wholly or in part by any act or omission of Tenant or Landlord, their agents, contractors, employees, servants, invitees, licensees or concessionaires. For the purposes of this Lease, the Property Manager is an agent of the Landlord. All insurance policies carried by Tenant and/or Landlord shall include a waiver of subrogation endorsement which specifies that the insurance carrier(s) will waive any right of subrogation against Tenant and/or Landlord arising out of any insurance claim.

10.2 Release of Landlord. Landlord shall not be responsible or liable at any time for any loss or damage to Tenant's personal property or to Tenant's business. Tenant shall store its property in and shall use and enjoy the Leased Premises and all other portions of the Building and Improvements at its own risk, and hereby releases Landlord, to the full extent permitted by law, from all claims of every kind resulting in loss of life, personal or bodily injury, or property damage to or arising in connection with Tenant's ownership of its personal property or the operation of Tenant's business.

10.3 Notice. Tenant shall give prompt notice to Landlord in case of fire or accidents in the Leased Premises or in the Building of which the Leased Premises are a part or of defects therein or in any fixtures or equipment.

10.4 Litigation. If any party to this Lease, without fault on its part, shall be made a party to any litigation that names either of the other two parties to this lease, those other parties shall protect and hold harmless the party without fault and shall pay all costs, expenses, and reasonable attorneys' fees, provided that the party to be protected must first notify the other parties promptly in writing of any such claim and further provided that the party or parties to be charged shall be entitled to direct the defense or settlement of such claim. No party to this Lease shall be responsible for any settlement or compromise of any such claim without its prior written consent.

FRANKLIN COVEY CO.

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

OVERVIEW

Effective June 2, 1997, Franklin Quest Co. ("Franklin") and Covey Leadership Center, Inc. ("Covey") merged (the "Merger") to form Franklin Covey Co. (the "Company"). Franklin has been in the business of teaching time management seminars since the Company's inception in 1983 and has been selling the Franklin Day Planner since its introduction in February 1984. Covey has been providing educational materials, training services and publications since its inception in 1980. The combined Company is uniquely positioned to provide educational and time management products and services to improve the productivity, leadership and effectiveness of both individuals and organizations. The Company's best known products include the Franklin Day Planner as well as the best-selling book, 7 Habits of Highly Effective People. Increases in sales during the periods reported have resulted from the incremental revenues of Covey and other acquired companies and have also been generated by teaching an increasing number of time management seminar participants and selling an increasing number of Franklin Covey Planners and Organizers and related products. Currently, the Company derives its sales principally from three areas: (1) product sales including planners, books, tapes and related products sold primarily through retail, catalog and direct channels; (2) training, consulting and coaching services, primarily in the areas of leadership, time management and personal improvement, provided through institutional and public programs; and (3) printing and tabbing services. The Company's results of operations have been seasonal in nature, resulting primarily from customer buying habits for calendar-related products. As a result of the Merger and corporate acquisitions during fiscal 1997, the quarterly fluctuation in sales is expected to decrease.

The Company opened 20 new retail stores during fiscal 1997. Retail store sales as a percentage of total product sales have increased as the Company has continued its strategy of opening new stores in geographic areas where there is a concentration of existing customers, which has resulted in some shifting from catalog sales to retail store sales. During 1997, comparable store sales growth was approximately 7%.

On December 1, 1994, the Company acquired Publishers Press, Inc. ("Publishers"). Publishers, a Utah corporation, prints Franklin Covey Planners and Organizers and related accessory products and provides book and commercial printing services to clients in the western United States.

Effective as of April 1, 1995, the Company acquired the assets of Time Systems, Inc. ("Time Systems"), a time management training and product company headquartered in Phoenix, Arizona. Time Systems markets a combination of time management training and planner products to corporate and individual customers. The cash purchase price was \$8.6 million.

Effective as of December 1, 1995, the Company acquired the assets of Productivity Plus, Inc. ("PPI"), a provider of time management products sold primarily to the military. PPI is headquartered in Phoenix, Arizona. The initial cash purchase price was approximately \$7.9 million, plus additional payments based on the operating results of PPI over the three years following its acquisition. During fiscal 1997, the first year's additional payment was made in the amount of \$3.0 million.

Effective October 1, 1996, the Company acquired the 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 plus additional payments, based on the operating results of TrueNorth over the five years following its acquisition. The payment accrued for fiscal 1997 was \$1.5 million.

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 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 being made over the next three years based upon Premier's operating performance over that same time period. The payment accrued for fiscal 1997 was \$7.0 million.

In the Merger with Covey, 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, exercisable at \$5.97 per share. In connection with the Merger, the Company acquired certain license rights from Stephen R. Covey for \$27.0 million in cash.

The Company has reviewed its information systems and does not believe they are affected by any significant problems related to the "year 2000" computer date issue. However, the Company could be impacted by "year 2000" issues affecting the information processing systems of vendors and other organizations with which the Company does business.

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,		
	1997	1996	1995
Total sales	100.0%	100.0%	100.0%
Cost of sales	40.5	44.0	39.8
	-----	-----	-----
Gross margin	59.5	56.0	60.2
	-----	-----	-----
Operating expenses:			
Selling, general and administrative	37.9	35.1	34.6
Depreciation and amortization	4.8	3.8	3.4
Merger related expenses	1.3		
	-----	-----	-----
Total operating expenses	44.0	38.9	38.0
	-----	-----	-----
Income from operations	15.5	17.1	22.2
	-----	-----	-----
Interest income	0.3	0.6	1.0
Interest expense	(0.5)	(0.2)	(0.2)
Other income	0.2		
	-----	-----	-----
Total other income (expense)	(0.2)	0.4	1.0
	-----	-----	-----
Income before provision for income taxes	15.3	17.5	23.2
Provision for income taxes	6.3	7.2	9.2
	-----	-----	-----
NET INCOME	9.0%	10.3%	14.0%
	=====	=====	=====
Sales Data:			
Product sales	69.6%	71.1%	69.4%
Training sales	24.8	21.3	24.6
Printing services sales	5.6	7.6	6.0

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 acquisition of Premier and TrueNorth, the Merger with Covey, an increase in the number of Franklin Covey Planners and Organizers 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 1.0%. Price increases had no material effect on increased sales between the periods. Retail store sales increased \$16.1 million over the previous 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 consists of sales less cost of sales. Costs include materials used in the production of the planners and related products, commissions of training consultants, direct costs of conducting seminars, assembly and manufacturing labor, freight and overhead costs. Gross margin may be affected by, among other things, changes in product discount levels, prices of materials, labor rates, production efficiency, training consultant commissions, product mix and freight costs. Gross margin was 59.5% of revenues for the year ended August 31, 1997, compared to 56.0% for the same period in 1996. For fiscal 1997, Covey, Premier and TrueNorth all had gross profit margins, as a percentage of sales, which were larger than those of the Company, taken as a whole. This was caused by differing markups on their products and the mix between revenue for 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 AND OTHER 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. Further, store expansions, information systems and related equipment also contributed significantly 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 acquisitions.

FISCAL 1996 COMPARED WITH FISCAL 1995

SALES

Sales for the year ended August 31, 1996, increased \$54.9 million, or 19.8% over the same period in 1995 as a result of an increase in the number of Franklin Day Planners sold, an increase in the number of time management

seminar participants, and the acquisition of new companies. Product sales (direct product sales, catalog sales, retail store sales, and commercial printing sales) increases of \$52.2 million accounted for 95% of the increase and training sales increases of \$2.6 million accounted for 5% of the increase. Direct Product sales increased by \$9.0 million as a result of the acquisition of PPI on December 1, 1995 and by \$8.0 million due to the full year inclusion of Publishers Press, purchased on December 1, 1994. Price increases had no material effect on increased sales between the periods. The Company continued to experience periodic fluctuations in direct product sales due to irregular volume and timing of sales to network marketing clients. Catalog sales growth continued to moderate as the retail store chain expanded and accounted for \$7.7 million of the product sales increase during 1996. Retail store sales increased \$22.7 million over the previous year as a result of 20 additional store openings and included an increase of 6% in comparable store sales (stores are included in the calculation from the first anniversary of their opening date).

GROSS MARGIN

Gross margin consists of sales less cost of sales. Costs include materials used in the production of the Franklin Day Planner, commissions of training consultants, direct costs of conducting seminars, assembly and manufacturing labor, freight and overhead costs. Gross margin may be affected by, among other things, changes in product discount levels, prices of materials, labor rates, production efficiency, training consultant commissions, product mix and freight costs. Gross margin was 56.0% of sales for the year ended August 31, 1996, compared to 60.2% for the same period in 1995. In addition to reduction due to fluctuation in the factors noted above, the gross margin was substantially reduced by a one-time write-off of inventory in the fourth quarter of the year.

OPERATING EXPENSES AND OTHER EXPENSES

Selling, general and administrative expenses increased 0.5% as a percentage of sales during the year ended August 31, 1996 (35.1% compared to 34.6% in fiscal 1995). About half of the increase in percentage was due to a fourth quarter increase in customer service allowances. The balance of the increase resulted from additional levels of investment in systems, marketing, and catalog distribution. Because a significant portion of these expenses are selling expenses, including certain variable expenses such as commissions and salary expense related to sales volume, the Company has experienced increases in these expenses associated with increases in the level of sales.

Depreciation charges were higher by \$1.9 million much of which was due to the completion and occupancy of the new headquarters building at the beginning of the second quarter of fiscal 1996. The remaining increase was primarily due to the additional manufacturing equipment and improvements in the 20 new stores. Amortization charges increased by \$1.2 million as a result of the amortization of intangible assets acquired during fiscal 1995 and fiscal 1996.

INCOME TAXES

Income taxes were accrued using an effective rate of 41.2% for fiscal 1996 compared to 39.7% for the prior fiscal year. The increase from the prior year was due partly to non-deductible goodwill generated from the Publishers acquisition and partly to non-deductible losses incurred in foreign countries.

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, 1997

	Q1	Q2	Q3	Q4

In thousands, except per share amounts				
Sales	\$102,377	\$105,598	\$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
Net income per share	.62	.63	.15	.37

YEAR ENDED AUGUST 31, 1996

	Q1	Q2	Q3	Q4

In thousands, except per share amounts				
Sales	\$91,880	\$93,593	\$72,465	\$74,068
Gross margin	52,553	53,490	41,604	38,137
Income before provision for income taxes	21,709	21,616	10,634	4,283
Net income	13,004	12,778	6,285	2,172
Net income per share	.57	.57	.28	.10

The Company's quarterly results of operations reflect seasonal trends that are primarily the result of customers who renew their Franklin Covey Planner or Organizer on a calendar year basis. Seminar sales are moderately seasonal because of the reluctance of corporate training directors to schedule seminars during holiday and vacation periods. In the Company's experience, catalog sales, retail store sales and income from operations tend to be lower during the third and fourth quarters of each fiscal year. The seasonality of the Company's operations has resulted in slightly higher sales and significantly higher operating margins during the first two quarters, with declines in sales and income in the third quarter of each fiscal year. The Company believes that as a result of the Merger and acquisitions during fiscal 1997, the seasonal patterns of sales and earnings will experience roughly similar patterns for the first three quarters as in the past. However, consistent with the results of the fourth quarter of fiscal 1997, the Company believes the acquisition of Premier will result in increased sales and earnings in the fourth quarter of future years.

During the fourth quarter of fiscal 1997, the Company recorded a charge for integration costs related to the Merger with Covey. The amount of the charge, net of related tax effects, was \$3.2 million. During the fourth quarter of 1996, the Company took a one-time write-off primarily related to inventory and customer service allowances. The amount of the write-off, net of related tax effect, was \$3.1 million.

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

LIQUIDITY AND CAPITAL RESOURCES

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

Net cash provided by operating activities during fiscal 1997 and 1996 was \$45.7 million and \$45.4 million, respectively. In fiscal 1997, \$38.9 million was used to finance increases in inventory, accounts receivable and other assets, while \$18.8 million was provided by increases in accounts payable and accrued liabilities. The most notable use of cash was represented by the increase in receivables from seasonally heavy fourth quarter sales by Premier. In fiscal 1996, \$3.6 million was provided by decreases in inventory and accounts receivable.

Net cash used in investing activities in fiscal 1997 and 1996 was \$80.0 million and \$26.9 million, respectively. 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. During fiscal 1996, PPI was purchased for an initial cash outlay of approximately \$7.9 million, using cash provided from operations. Funds invested in property and equipment in fiscal 1997 and 1996 were \$20.2 million and \$19.5 million, respectively and included new store leasehold improvements, additional manufacturing equipment and upgrades to the Company's core computer systems.

Going forward, the Company will incur buildout and inventory costs for additional retail stores as well as normal equipment additions related to the growth of the business, all of which it expects to finance from cash provided by operations. During fiscal 1997, the Company began a project to replace its current information systems with newer integrated systems to support Company growth. As part of this project, the Company is also reengineering business processes to improve the efficiency of operations. The costs of this project will be provided jointly by cash provided by operations or from the Company's borrowing facilities.

Financing activities provided cash of \$30.7 million in 1997 and used cash of \$29.2 million in 1996. In 1997, the primary source of cash was proceeds from long-term debt and line of credit. The primary use of cash was the purchase of common stock for the treasury for both fiscal 1997 and 1996.

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 shares that may be made under the remaining 795,000 shares authorized for purchase by the Board of Directors. The Company has unsecured bank lines of credit available for working capital needs totaling \$104.0 million at August 31, 1997. On August 31, 1997, the Company had \$86.0 million outstanding on the \$100.0 million line of credit with interest at the lesser of the prime rate less .50% or the LIBOR rate plus .75%. The \$100.0 million line of credit agreement which expires in October 2001, requires the maintenance of certain financial ratios and working capital levels. As of August 31, 1997, the Company was in compliance with these borrowing covenants.

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 any 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 the 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. 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 Report on form 10-K for the year ended August 31, 1997 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. (formerly Franklin Quest Co., a Utah corporation) and subsidiaries as of August 31, 1997 and 1996, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended. 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. The consolidated financial statements of Franklin Covey Co. and subsidiaries for the year ended August 31, 1995, were audited by other auditors whose report dated September 20, 1995 expressed an unqualified opinion on those statements.

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, 1997 and 1996, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Salt Lake City, Utah
September 26, 1997

FRANKLIN COVEY CO.
CONSOLIDATED BALANCE SHEETSAUGUST 31, 1997 1996-----
In thousands, except share data

ASSETS

Current assets:

Cash and cash equivalents	\$ 20,389	\$ 24,041
Accounts receivable, less allowance for doubtful accounts of \$1,931 and \$889	71,840	28,706
Inventories	55,748	49,463
Income taxes receivable	6,094	5,064
Other assets	15,672	5,743

Total current assets	169,743	113,017
----------------------	---------	---------

Property and equipment, net	119,768	102,063
Goodwill and other intangibles, net	269,219	51,115
Other assets	13,457	2,250
	-----	-----
	\$ 572,187	\$ 268,445
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable	\$ 31,611	\$ 12,585
Accrued compensation	13,349	8,029
Accrued acquisition earnouts	9,000	
Other accrued liabilities	28,324	7,157
Current portion of long-term debt	3,644	906
Current portion of capital lease obligations	975	

Total current liabilities	86,903	28,677
---------------------------	--------	--------

Line of credit	86,000	
Deferred income taxes	35,735	2,433
Long-term debt, less current portion	5,870	5,500
Capital lease obligations, less current portion	2,274	

Total liabilities	216,782	36,610
-------------------	---------	--------

Commitments and contingencies (Notes 7, 9 and 14)

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 and 22,025,000 shares issued	1,353	1,101
Additional paid-in capital	239,699	132,959
Retained earnings	169,714	130,849
Deferred compensation	(1,495)	(1,240)
Cumulative translation adjustment	(934)	(940)
Treasury stock, 2,373,223 and 1,497,407 shares, at cost	(52,932)	(30,894)

Total shareholders' equity	355,405	231,835
----------------------------	---------	---------

	-----	-----
	\$ 572,187	\$ 268,445
	=====	=====

See accompanying notes to consolidated financial statements

FRANKLIN COVEY CO.
CONSOLIDATED STATEMENTS OF INCOME

YEAR ENDED AUGUST 31,	1997	1996	1995

In thousands, except per share data			
Sales:			
Product	\$ 301,687	\$ 236,039	\$ 192,356
Training	107,417	70,812	68,168
Printing services	24,168	25,155	16,598
	-----	-----	-----
Total sales	433,272	332,006	277,122
	-----	-----	-----
Cost of sales:			
Product	126,419	104,486	77,459
Training	31,283	22,475	19,525
Printing services	17,900	19,261	13,160
	-----	-----	-----
Total cost of sales	175,602	146,222	110,144
	-----	-----	-----
Gross margin	257,670	185,784	166,978
	-----	-----	-----
Selling, general and administrative	164,057	116,362	95,802
Depreciation and amortization	20,800	12,739	9,625
Merger and integration costs	5,450		
	-----	-----	-----
Income from operations	67,363	56,683	61,551
	-----	-----	-----
Interest income	1,344	2,188	2,513
Interest expense	(2,344)	(630)	(578)
Other income	744		
	-----	-----	-----
Income before provision for income taxes	66,363	58,241	64,230
	-----	-----	-----
Provision for income taxes	27,498	24,002	25,484
	-----	-----	-----
NET INCOME	\$ 38,865	\$ 34,239	\$ 38,746
	=====	=====	=====
NET INCOME PER SHARE	\$ 1.76	\$ 1.53	\$ 1.71
	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES	22,117	22,328	22,692
	=====	=====	=====

See accompanying notes to consolidated financial statements.

FRANKLIN COVEY CO.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	COMMON STOCK				TREASURY STOCK		TOTAL SHARE- HOLDERS' EQUITY		
	SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	DEFERRED COMPEN- SATION	CUMULATIVE TRANSLATION ADJUSTMENT		SHARES	AMOUNT
In thousands									
Balance at August 31, 1994	22,025	\$ 1,101	\$ 106,783	\$ 57,864	\$	\$ (520)	(1,209)	\$ (3,143)	\$ 162,085
Tax benefit from exercise of affiliate stock options			1,571						1,571
Issuance of common stock from treasury			21,987				1,065	2,670	24,657
Purchase of treasury shares							(110)	(2,673)	(2,673)
Deferred compensation			887		(740)				147
Cumulative translation adjustment						(191)			(191)
Net income				38,746					38,746
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

See accompanying notes to consolidated financial statements.

FRANKLIN COVEY CO.
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED AUGUST 31,	1997	1996	1995

In thousands			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 38,865	\$ 34,239	\$ 38,746
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	23,576	16,217	11,745
Provision for losses on accounts receivable	349	244	103
Deferred compensation	594	290	147
Loss (gain) on sale of assets	8	187	(377)
Changes in assets and liabilities, net of effects from acquisitions:			
Decrease (increase) in accounts receivable	(19,332)	1,671	(3,179)
Decrease (increase) in inventories	(1,068)	1,889	(5,256)
Decrease (increase) in other assets	(18,462)	(1,928)	286
(Decrease) increase in accounts payable and accrued liabilities	18,783	(3,515)	(3,098)
Increase (decrease) in income taxes	2,352	(3,903)	1,669
	-----	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	45,665	45,391	40,786

CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of businesses	(33,188)	(7,608)	(10,060)
Purchase of license rights	(27,000)		
Purchase of property and equipment, net of effects from acquisitions	(20,189)	(19,463)	(32,523)
Proceeds from sale of property and equipment	366	148	3,287
	-----	-----	-----
NET CASH USED FOR INVESTING ACTIVITIES	(80,011)	(26,923)	(39,296)

CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term borrowings	3,256	316	(363)
Payments on short-term borrowings	(398)		
Proceeds from long-term debt and line of credit, net of effects from acquisitions	64,419	121	
Payments on long-term debt and capital leases	(3,211)	(2,834)	(15,166)
Purchases of common stock for treasury	(36,378)	(28,119)	(2,673)
Proceeds from treasury stock issuances	3,000	1,312	2,224
	-----	-----	-----
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	30,688	(29,204)	(15,978)

Effect of foreign exchange rates	6	(229)	(211)
	-----	-----	-----
Net decrease in cash and cash equivalents	(3,652)	(10,965)	(14,699)
Cash and cash equivalents at beginning of year	24,041	35,006	49,705
	-----	-----	-----
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 20,389	\$ 24,041	\$ 35,006
	=====	=====	=====

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

Effective June 2, 1997, Franklin Quest Co. merged (the "Merger") with Covey Leadership Center, Inc. ("Covey") to form Franklin Covey Co. (the "Company"). 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 Day Planner as well as the best-selling book, 7 Habits of Highly Effective People. The Company operates principally in the education and personal organizer industry.

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.

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. For property and equipment placed in service prior to fiscal 1994, other than buildings, depreciation is computed using declining-balance methods over the estimated useful lives of the assets, ranging from three to seven years. Effective September 1, 1993, the Company began depreciating newly acquired equipment using the straight-line method, which conforms to prevailing industry practice. Depreciation is calculated based upon the expected useful lives of the assets as follows:

Description	Useful Lives
Machinery and equipment	3-7 years
Furniture and fixtures	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 accounts for impairment of long-lived assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be

Disposed of." SFAS No. 121 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the book value of the asset may not be recoverable. The Company evaluates at each balance sheet date whether events and circumstances have occurred which indicate possible impairment. SFAS No. 121 was adopted in fiscal 1997 and did not have a material impact on the Company's financial position or results of operations.

Foreign Currency Translation

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.

Revenue Recognition

Revenue is recognized upon shipment of product and presentation of training seminars. As part of the time management seminar, the Company provides a seminar kit to each participant which includes a Franklin Day Planner.

Net Income Per Share

Net income per share is computed using the weighted average number of common and common equivalent shares outstanding during the year. Common equivalent shares consist of the Company's common stock issuable upon exercise of stock options, determined using the treasury stock method.

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 which 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 February 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 128, "Earnings Per Share." This statement specifies requirements for the computation, presentation and disclosure of earnings per share ("EPS") for all periods ending after December 15, 1997. Early adoption is prohibited and upon adoption, all prior period EPS data must be restated. SFAS No. 128 simplifies the standards for computing EPS and replaces the presentations of Primary EPS and Fully Diluted EPS with Basic EPS and Diluted EPS. The Company will adopt SFAS No. 128 in fiscal 1998 and believes it will not have a material impact.

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income." Under current reporting requirements, extraordinary and non-recurring gains and losses are excluded from income from current operations. SFAS No. 130 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. The statement is effective for fiscal years beginning after December 15, 1997.

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. The objectives of SFAS No. 131 are to help users of financial statements better understand the enterprise's performance, better assess its prospects for future cash flows and make more informed judgments about the enterprise as a whole. SFAS No. 131 is effective for fiscal years beginning after December 15, 1997 with comparative information from past years to be restated.

Reclassifications

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

2. STATEMENTS OF CASH FLOWS

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

YEAR ENDED AUGUST 31,	1997	1996	1995
CASH PAID FOR:			
Income taxes	\$ 27,916	\$ 27,973	\$ 24,279
Interest	2,042	616	1,025
Fair value of assets acquired	88,208	11,336	51,126
Cash paid for net assets	(33,188)	(7,608)	(32,523)
Liabilities assumed from acquisitions	55,020	3,728	18,603
Tax effect of exercise of affiliate stock options	1,654	287	1,571

Effective June 2, 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 total value of the stock exchanged was approximately \$111.5 million. The stock issued in the exchange was valued at \$22.1625 per share, which represents the average of the per share closing 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 forgoing exchange, the Company issued 382,100 stock options 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 above Merger and the acquisition of Premier Agendas, Inc. (See Note 14), the Company recognized approximately \$29.4 million of net deferred tax liabilities with a corresponding increase to goodwill.

On May 30, 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 related to the options exercised had a weighted average cost of \$20.35 per share.

During the fiscal year ended August 31, 1997, the Company accrued \$9.0 million for anticipated earnout payments related to the acquisition of certain entities (See Note 14).

3. INVENTORIES

Inventories are comprised of the following (in thousands):

AUGUST 31,		
	1997	1996
Finished goods	\$ 40,955	\$ 36,156
Work-in-process	7,286	4,969
Raw materials	7,507	8,338
	-----	-----
	\$ 55,748	\$ 49,463
	=====	=====

4. PROPERTY AND EQUIPMENT

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

AUGUST 31,		
	1997	1996
Land and improvements	\$ 11,301	\$ 11,124
Buildings	50,978	50,038
Machinery and equipment	68,106	48,992
Furniture and fixtures	45,496	29,788
Construction in progress	12	223
	-----	-----
	175,893	140,165
Less accumulated depreciation	(56,125)	(38,102)
	-----	-----
	\$ 119,768	\$ 102,063
	=====	=====

Certain real estate represents collateral for debt obligations (See Note 6).

5. GOODWILL AND OTHER INTANGIBLE ASSETS

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

AUGUST 31,		
	1997	1996
Goodwill	\$ 88,685	\$ 31,001
License rights	27,000	
Curriculum rights	64,019	11,990
Trade names and other	109,375	17,889
	-----	-----
	289,079	60,880
Less accumulated amortization	(19,860)	(9,765)
	-----	-----
	\$ 269,219	\$ 51,115
	=====	=====

Goodwill is amortized over 10 to 30 years on a straight-line basis. Other intangible assets are amortized on a straight-line basis over expected useful lives ranging from 4 to 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, 1997.

6. DEBT

LINES OF CREDIT

The Company has unsecured bank lines of credit available for working capital needs totaling \$104.0 million at August 31, 1997. On August 31, 1997, the Company had \$86.0 million outstanding on a \$100.0 million line of credit with interest at the lesser of the prime rate less .50% or the LIBOR rate plus .75%. The \$100.0 million line of credit agreement requires the maintenance of certain financial ratios and working capital levels and expires in October 2001. The Company was in compliance with the terms of the agreement at

August 31, 1997. The Company also has a \$4.0 million line of credit with interest at .75% above prime. No borrowings were outstanding under this line of credit at August 31, 1997.

LONG-TERM DEBT

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

AUGUST 31,	1997	1996
Note payable on demand, plus interest at 8%	\$ 2,834	\$
Mortgage payable in monthly installments of \$18 including interest at 9.9% through August 2016, secured by real estate	1,834	1,895
Note payable to bank, payable in monthly installments of \$23 plus interest at prime plus .5% payable through September 2002, secured by real estate	1,432	1,714
Note payable due in January 1999, plus interest at 6.0%	1,000	1,000
Mortgage payable in monthly installments of \$8 including interest at 9.9% through October 2014, secured by real estate	747	763
Other mortgages and notes, payable in monthly installments, interest ranging from 6.0% to 15.1%, due at various dates through 2002, secured by real estate, equipment, inventories and accounts receivable	1,667	1,034
	9,514	6,406
Less current portion	(3,644)	(906)
LONG-TERM DEBT, LESS CURRENT PORTION	\$ 5,870	\$ 5,500

Future maturities of long-term debt at August 31, 1997 are as follows (in thousands):

YEAR ENDING AUGUST 31,	
1998	\$ 3,644
1999	2,043
2000	671
2001	563
2002	451
Thereafter	2,142
	\$ 9,514

7. LEASE OBLIGATIONS

CAPITAL LEASES

Future minimum lease payments for equipment held under capital lease arrangements as of August 31, 1997 are as follows (in thousands):

YEAR ENDING AUGUST 31,	
1998	\$ 1,200
1999	951
2000	669
2001	592

2002	391

Total future minimum lease payments	3,803
Less amount representing interest	(554)

Present value of future minimum lease payments	3,249
Less current portion	(975)

	\$ 2,274
	=====

Total assets held under capital lease arrangements were approximately \$4.9 million with accumulated amortization of approximately \$1.8 million as of August 31, 1997. Amortization of capital lease assets is included in depreciation and amortization.

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, 1997 (in thousands):

YEAR ENDING
AUGUST 31,

1998	\$10,197
1999	8,031
2000	6,500
2001	4,715
2002	3,905
Thereafter	17,636

	\$50,984
	=====

Rental expense for leases under operating lease terms was \$11.7 million, \$8.9 million and \$5.6 million for the years ended August 31, 1997, 1996 and 1995, respectively.

8. ADVERTISING

Costs for newspaper, television, radio and other advertising are expensed as incurred and were approximately \$18.9 million, \$15.6 million and \$10.9 million for the years ended August 31, 1997, 1996 and 1995, respectively. Direct response advertising costs consist primarily of catalog preparation and printing costs which are charged to expense over the period of projected benefit, not to exceed twelve months. Prepaid catalog costs reported in other current assets were approximately \$4.1 million and \$1.0 million at August 31, 1997 and 1996, respectively.

9. COMMITMENTS AND CONTINGENCIES

PURCHASE COMMITMENTS

As of August 31, 1997, the Company had purchase commitments for information systems improvements and printing presses totaling approximately \$21.4 million. As of August 31, 1996, the Company had purchase commitments for various capital expenditures which totaled approximately \$0.4 million.

LEGAL MATTERS

The Company is the subject of certain legal actions, which it considers routine to its business activities. As of August 31, 1997, 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.

10. RELATED PARTY TRANSACTIONS

On August 11, 1997, the Company repurchased 750,000 shares of its common stock, at the existing fair market value, from the Chief Executive Officer and Chairman of the Board of the Company for \$18.0 million in cash.

On May 13, 1997, the Company repurchased, for \$2.4 million in cash, 110,000 shares of its common stock from a former officer and director of the Company.

Premier Agendas, a subsidiary of the Company, has trade accounts payable to various companies which are partially owned by certain former owners of Premier totaling \$3.0 million. In addition, Premier has notes payable to key employees totaling \$2.8 million at August 31, 1997 (See Note 6). 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 who is also a shareholder of the Company. Rental expense paid to the partnership totaled approximately \$0.7 million during fiscal 1997.

The Company pays the Co-Chairman of the Board of Directors a percentage of the proceeds received for seminars which are presented by the Co-Chairman. During fiscal 1997, the Company expensed approximately \$0.2 million related to this arrangement.

11. 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 844,342, 132,021 and 309,045 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 1997, 1996 and 1995, respectively. These shares were sold for a total of approximately \$4.9 million, \$1.0 million and \$2.2 million and had a cost of approximately \$14.3 million, \$0.4 million and \$0.8 million for the years ended 1997, 1996 and 1995, respectively. In November 1994, the Company exchanged 738,000 of its shares held in treasury for all of the outstanding shares of Publishers Press, Inc. (See Note 14). In January 1995, March 1996 and September 1996, the Company's Board of Directors approved the repurchase of up to 1,000,000 shares, 1,000,000 shares and 2,000,000 shares, respectively, of the Company's common stock. During fiscal 1997, 1996 and 1995, the Company repurchased 1,720,000 shares at a cost of approximately \$36.4 million, 1,375,000 shares at a cost of approximately \$28.1 million and 110,000 shares at a cost of approximately \$2.7 million, respectively.

TAX BENEFIT FROM EXERCISE OF AFFILIATE STOCK OPTIONS

During fiscal 1997, 1996 and 1995, certain employees exercised affiliate stock options (stock options received from principal shareholders of the Company) which resulted in tax benefits to the Company of approximately \$1.7 million, \$0.3 million and \$1.6 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 has 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. Unoptioned

shares available for granting under the incentive stock option plan at August 31, 1997, are 936,434.

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

Year Ended August 31, 1995	Number of Options	Weighted Avg. Exercise Price

Outstanding at September 1, 1994	3,089,550	\$ 16.17
Granted	174,500	24.78
Exercised	(269,071)	4.49
Forfeited	(29,550)	9.91

Outstanding at August 31, 1995	2,965,429	17.76

Exercisable	2,279,000	11.62

Year Ended August 31, 1996		

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

Exercisable	2,214,073	15.40

Year Ended August 31, 1997		

Granted:		
At market value	747,340	\$ 19.03
In connection with 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
=====		
Exercisable	2,269,399	22.04

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,	1997	1996

Net income as reported	\$38,865	\$34,239
Net income pro forma	30,514	30,410

Earnings per share as reported	\$ 1.76	\$ 1.53
Earnings per share pro forma	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 and exercisable at August 31, 1997: 799,070 of the options outstanding have exercise prices between \$1.11 and \$11.83, with a weighted average exercise price of \$4.21 and a weighted average remaining contractual life of 6.1 years of which 416,970 are exercisable at August 31, 1997. 2,125,608 of the options have exercise prices between \$15.50 and \$26.82, with a weighted average exercise price of \$19.90 and a weighted average remaining contractual life of 7.5 years of which 1,050,728 are exercisable at August 31, 1997. The remaining 977,250 options outstanding have exercise prices between \$29.38 and \$34.50, with a weighted average exercise price of \$34.19 and a weighted average remaining contractual life of 6.7 years of which 801,701 are exercisable at August 31, 1997.

The weighted average fair value of options granted under the Company's stock option plans during fiscal 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. The

weighted average fair value of options granted for the fiscal 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 1997 and 1996, respectively: dividend yield of 0%, expected volatility of 61.5%, and expected life of 2.5 years for both years and a risk-free rate of return of 6.05% and 5.88%, respectively. 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 1997 and 1996 was \$4.41 and \$2.44, respectively.

12. EMPLOYEE BENEFIT PLANS

PROFIT SHARING PLANS

The Company has defined contribution profit sharing plans which 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, 1997, 1996 and 1995 were approximately \$1.4 million, \$1.2 million and \$1.0 million, respectively.

EMPLOYEE STOCK PURCHASE PLAN

In April 1992, the Company adopted 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 42,527, 47,574, and 30,974, have been issued under this plan for the years ended August 31, 1997, 1996 and 1995. Shares available for issuance under this plan at August 31, 1997, are 129,717. The Company accounts for its employee stock purchase plan under the provisions of APB Opinion 25 and related interpretations.

13. INCOME TAXES

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

YEAR ENDED AUGUST 31,	1997	1996	1995
Current:			
Federal	\$ 24,103	\$ 19,960	\$ 20,943
State	5,755	3,886	4,447
Foreign	790	778	307
Deferred:			
Federal	(2,544)	(548)	(191)
State	(606)	(74)	(22)
	\$ 27,498	\$ 24,002	\$ 25,484

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,	1997	1996	1995
Federal statutory tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	5.0	4.8	4.7
Goodwill amortization	.8	.3	.2
Other	.6	1.1	(.2)
	41.4%	41.2%	39.7%

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

YEAR ENDING AUGUST 31,	1997	1996
Current deferred tax assets:		
Sales returns and contingencies	\$ 2,822	\$
Inventory and bad debt reserves	2,435	1,352
Vacation and other accruals	1,461	926
Other	666	41
Total current deferred tax assets	7,384	2,319
Long-term deferred tax assets and (liabilities):		
Interest and other capitalization	593	440
Intangibles and fixed asset step-up	(33,316)	(1,365)
Depreciation and amortization	(2,286)	(1,272)
Other	(726)	(236)
Net long-term deferred tax liabilities	(35,735)	(2,433)
NET DEFERRED INCOME TAX LIABILITY	\$ (28,351)	\$ (114)

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

14. MERGER AND ACQUISITIONS

Effective June 2, 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 \$22.1625 per share, which was the average of the per share closing sales price of the Company's common stock on the New York Stock Exchange for the twenty consecutive trading days ended May 28, 1997. All outstanding options to purchase Covey common stock were converted into 382,100 options to purchase the Company's common stock, exercisable at \$5.97 per share. In connection with the Merger, the Company acquired certain license rights from Stephen R. Covey 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 September 1, 1995 (in thousands):

YEAR ENDING AUGUST 31,	1997	1996
(Unaudited)		
Revenue	\$515,567	\$421,064
Operating income	73,672	62,838
Net income	40,885	35,142
Net income per share	1.56	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 license rights from Stephen R. Covey, (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 Agendas, Inc. and Premier School Agendas, Ltd., located in Bellingham, Washington and Abbotsford, British Columbia, respectively (collectively, "Premier"). The combined cash purchase price was \$23.2 million with additional contingent payments being made over the next three years based upon Premier's operating performance over that same time period. As of August 31, 1997, \$7.0 million has been accrued as an anticipated earnout payment under terms of the purchase agreement. 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. Premier's revenues for the twelve months ended December 31, 1996 were approximately \$35.4 million.

The Premier acquisition was accounted for using the purchase method of accounting and generated \$27.6 million of intangible assets which 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.

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. As of August 31, 1997, \$1.5 million has been accrued as an anticipated earnout payment under terms of the purchase agreement. TrueNorth had sales for the twelve months ended July 31, 1996 of approximately \$16.0 million.

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.

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 approximately \$7.9 million, and additional payments may be made, based on the operating results of the company over the three years following its acquisition. During fiscal 1997, \$3.0 million was paid to PPI for favorable operating results under terms of the purchase agreement. PPI had sales for the year ended November 30, 1995, of approximately \$12.5 million.

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. The \$3.0 million contingent payment which was paid during fiscal 1997 is being amortized over nine years which is the remaining useful life of goodwill generated by the acquisition.

In April 1995, the Company acquired the assets of Time Systems, Inc. ("Time Systems"), a time management training and product company headquartered in Phoenix, Arizona. The cash price was \$8.6 million. Time Systems markets a combination of time management training and planner products to corporate and individual customers. The acquisition was accounted for as a purchase. Time Systems had sales for the year ended December 31, 1994, of approximately \$14.9

million. The acquisition resulted in intangibles of \$5.5 million, which are being amortized over periods ranging from 4 to 30 years.

In June 1995, the Company acquired the assets of LTS, Inc. ("LTS"). LTS is headquartered in Atlanta, Georgia, and distributed exclusively Time Systems products and services. The cash purchase price was \$1.9 million. At August 31, 1997, an additional \$0.5 million was accrued as final earnout payment to the previous owner of LTS for favorable operating performance under terms of the purchase agreement. The acquisition of LTS was accounted for using the purchase method. LTS, Inc., had sales for the year ended December 31, 1994, of approximately \$2.6 million. The acquisition, not including the accrued final payment, resulted in intangible assets of \$1.2 million, which are being amortized over periods ranging from 5 to 7 years.

Effective December 1, 1994, the Company acquired Publishers Press, Inc. ("Publishers") for \$22.4 million. Publishers, a Utah corporation, prints the Franklin Day Planner and related accessory products and provides book and commercial printing services to clients in the western United States. Publishers' sales for the year ended December 31, 1993, were approximately \$41.5 million, including sales to the Company of \$23.8 million. The transaction, which was accounted for as a purchase, was effected through the exchange of approximately 738,000 shares of the common stock of the Company for all of the issued and outstanding capital stock of Publishers. The acquisition resulted in intangibles of approximately \$18.5 million which are being amortized over periods ranging from 7 to 30 years.

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

YEAR ENDING AUGUST 31,	1995	1994
(Unaudited)		
Revenue	\$284,028	\$237,649
Net income	39,623	33,763
Net income per share	1.74	1.48

The foregoing unaudited pro forma results of operations reflect the effect of certain pro forma adjustments including (1) conforming Publishers compensation expense levels with those of the Company, (2) the depreciation of property and equipment based on the estimated fair value of property and equipment acquired, (3) the amortization of the goodwill and other intangibles resulting from the acquisition and (4) the adjustment of income taxes to reflect a combined effective federal and state income tax rate.

15. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

FRANKLIN COVEY CO.

Wholly-Owned Subsidiaries and Divisions

Franklin Development Corporation (a Utah corporation)
Franklin Covey Europe, Inc. (a Utah corporation)
Franklin Covey Canada, Ltd. (an Ontario, Canada corporation)
Franklin Excellence, Inc. (a Utah corporation)
Franklin Covey Asia, Inc. (a Utah corporation)
Franklin Covey Australia, Inc. (a Utah corporation)
Franklin Covey NZ, Inc. (a Utah corporation)
Franklin Covey Mexico, Inc. (a Utah corporation)
Franklin Covey Taiwan, Inc. (a Utah corporation)
Franklin Covey Argentina, Inc. (a Utah corporation)
Franklin Covey Brazil, Inc. (a Utah corporation)
Franklin Covey Spain, Inc. (a Utah corporation)
Franklin Covey Puerto Rico, Inc. (a Puerto Rico corporation)
Franklin Covey SA, Inc. (a Utah corporation)
Franklin Covey ASC, Inc. (a Utah corporation)
Publishers Press, Inc. (a Utah corporation)
Franklin Covey Travel, Inc. (a Utah corporation)
Franklin Covey Client Sales, Inc. (a Utah corporation)
Franklin Covey Catalog Sales, Inc. (a Utah corporation)
Franklin Covey Product Sales, Inc. (a Utah corporation)
Franklin Covey Services, L.L.C. (a Utah limited liability company)
Franklin Covey Marketing, Ltd. (a Utah limited partnership)
Franklin Covey Europe, Limited (a U.K. limited liability company)
Check Advantage Plus, Inc.

The above subsidiaries are owned 100 percent by Franklin Covey Co. Franklin Development Corporation is the entity under which all real estate is held. Publishers Press, Inc. is in the printing business and prints the Franklin Day Planner pages. Franklin Covey Travel, Inc. is in the business of providing general travel agency services. Check Advantage Plus, Inc. is in the business of processing and collecting bad debts and bad checks for Franklin Covey Co. All other subsidiaries are engaged in the same business as the parent.

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.

/s/ ARTHUR ANDERSEN LLP

ARTHUR ANDERSEN LLP

Salt Lake City, Utah
November 19, 1997

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (Nos. 33-51314 and 33-73624) and S-3 (No. 33-47894) of Franklin Covey Co., of our report dated September 20, 1995, appearing on page 17 of this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report on the Financial Statement Schedule, which appears on page 19 of this Form 10-K.

/s/ Price Waterhouse LLP

Price Waterhouse LLP
Salt Lake City, Utah
November 21, 1997

SEC 2400.981

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1,000
U.S. DOLLARS

12-MOS

	AUG-31-1997	
	SEP-01-1996	
	AUG-31-1997	
	1	20,389
	0	
	73,771	
	1,931	
	55,748	
	169,743	175,893
	56,125	
	572,187	
86,903		94,144
0		0
		1,353
		354,052
572,187		
		433,272
	433,272	175,602
	190,307	
	0	
	0	
	1,000	
	66,363	
	27,498	
38,865		
	0	
	0	
		0
	38,865	
	1.76	
	1.76	