OMNICOM GROUP INC.
Form 4
October 04, 2016

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
PURCELL JOHN R

(Last) (First) (Middle)

C/O OMNICOM GROUP INC., 437 MADISON AVENUE

(Street)

NEW YORK, NY 10022

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
OMNICOM GROUP INC. [OMC]

3. Date of Earliest Transaction (Month/Day/Year)
10/01/2016

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock, par value $0.15 per share	10/01/2016		A		367.65 (1)	A	$ 0	35,841.17 (2)	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
PURCELL JOHN R C/O OMNICOM GROUP INC. 437 MADISON AVENUE NEW YORK, NY 10022	X			

Signatures

/s/ Michael J. O'Brien, Attorney in Fact for John R. Purcell	10/04/2016
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The reporting person elected to defer receipt of these shares under the terms of the Omnicom Group Inc. 2013 Incentive Award Plan.

(2) Includes dividends on deferred shares that are reinvested in company stock, credited on July 11, 2016.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. mes New Roman" SIZE="2">Domestic sales 51.7% 52.2% 60.8%

International sales

46.7 42.1 39.2

Other operating revenue

1.6 5.7

Revenue

100.0 100.0 100.0

Cost of Sales

51.2 47.3 54.2

Gross Margin

48.8 52.7 45.8

Expenses:

Sales and Marketing

32.4 27.8 30.4

Research and Development

9.3 5.9 8.4

General and Administrative

15.2 13.9 13.1

Total operating expenses

56.9% 47.6% 51.9%

Operating Income (Loss):

(8.2) 5.1 (6.2)

Interest expense, net

(.8) .2 .4

Other, net

(.2) (0.7) (0.2)

Income (Loss) Before Income Taxes

(9.2) 4.6 (6.0)

Income Tax (Benefit) Provision

6.1 0.4 0.1

Net (Loss) Income

(15.3)% 4.2% (6.1)%

Net income (loss) applicable to common stock

(15.3)% 4.2% (6.1)%

Year Ended March 31, 2009 Compared With Year Ended March 31, 2008

Sales of $46,025 for the year ended March 31, 2009 decreased by $11,056 from sales of $57,081 in the prior year. The decrease was primarily due to lower sales in the retail markets across all of our business operations as a result of the worldwide economic recession and its impact on consumer spending. This, along with the absence of purchases by a significant customer in the current year, resulted in a decline of $8,349 or 26% in sales in our North American business operations, our largest retail market. Sales in our European business operations decreased by $2,606 or 14% with $2,457 attributable to lower sales and $149 as a result of exchange rates differences compared to the prior year. Our German operation accounted for $2,164 of the European decline primarily as a result of the worldwide recession and its impact on consumer spending and due to a promotional sale to a customer in the prior year period that did not purchase in the current year. The impact of the stronger U.S. dollar in the year ended March 31, 2009 contributed $611 to the decline in sales in our overseas operations as compared to the prior year.

Total revenue for the fiscal year ended March 31, 2009 of $46,775 included $750 reflected as other operating revenue that we received from Nuance following the settlement of pending litigation. Total revenue in the prior year period of $60,581 included $3,500 reflected as other operating revenue that we received from

Table of Contents

two distribution partners, Seiko Instruments, Inc. (SII) and Seiko U.K. Ltd. The payments were in consideration for the elimination of minimum purchase commitments in the agreement under which SII distributes Franklin products in Japan and we distribute SII products in the United States and Germany and for the extension of the distribution agreement under which Seiko U.K. Ltd. distributes Franklin products in the United Kingdom and Ireland.

Gross margin decreased by $9,105 primarily because of decreased sales of $11,056 resulting in lower gross margin of $5,505 and a decline in gross margin percentage, excluding other operating revenue, from 50% in the prior year to 48% in the current year, resulting in an additional decline of $850 in margin dollars. The decrease in gross margin percentage was primarily due to the impact of the stronger US dollar in the current year compared to the prior year and a one time inventory valuation adjustment. In addition, the decrease in other operating revenue negatively impacted the current year s gross margin by $2,750.

Total operating expenses decreased to $26,633 for the year ended March 31, 2009 from $28,826 in the same period last year. Sales and marketing expenses declined by $1,675 to $15,169 (33% of sales) from $16,844 (30% of sales) in the same period last year primarily due to decreased variable expenses for advertising, freight, and commission expenses by $963, $468, and $191 respectively. Personnel expense decreased by $392 primarily due to a net savings following a reduction in workforce in May 2008 partially offset by a one-time termination charge in March 2009 relating to an additional workforce reductions. Amortization increased due to a one-time impairment charge against the carrying value of the Rolodex® trademark of $386. Research and development expenses increased by $820 to $4,371 (10% of sales) from $3,551 (6% of sales) in the prior year. The increase is primarily due to a one-time charge relating to the liquidation of KEP in the amount of $732. Consulting and outsourced expenses also increased by $163, partially offset by decreased personnel costs of $96. General and administrative expenses decreased by $1,338 to $7,093 (15% of sales) from $8,431 (15% of sales) in the same period last year primarily due to approximately $600 of additional expenses related to the SII settlement agreement including an increase in incentive compensation accruals and associated legal and travel expenses in the prior year period. Personnel expense decreased by $345 primarily due to a net savings following a reduction in workforce in May 2008 partially offset by a one time termination charge in March 2009 relating to additional workforce reductions. Consulting, depreciation, bank fees, and doubtful accounts decreased by $230, $135, $94, and $301, respectively, partially offset by an increase in legal fees, accounting fees, and insurance of $294, $51, and $48, respectively.

For the year ended March 31, 2009 we had net interest income of $1 compared with net interest income of $116 in the same period in the prior year primarily due to lower interest income on investments.

Also for year ended March 31, 2009 there was a loss on investment of $370 resulting from the liquidation by its sponsor of a short-term fixed income fund.

Other, net was a loss of $103 for the year ended March 31, 2009 compared with a loss of $439 last year. For the year ended March 31, 2009 we recorded a gain on our program of selling euros at current rates for future settlement of $51 compared with a loss of $564 in the same period in the prior year.

At March 31, 2008, the Company had approximately $5.7 million of Deferred Tax Asset recorded on its Consolidated Balance Sheet which was established based on future projected taxable income. In view of the current year s loss and the uncertainty economic conditions may have on the future business operations, management has concluded that it is more likely than not that the full value of the deferred tax asset would not be realized and as a result has taken a partial write down of $2.7 million in the current fiscal year ended March 31, 2009.

We have operations in a number of foreign countries and record sales and incur expenses in various foreign currencies. As the value of these currencies fluctuate from year to year against the US dollar, our revenues, operating expenses and results of operations are impacted. For the year ended March 31, 2009, approximately

Table of Contents

39% of our sales were denominated in currencies other than the US dollar. For the year ended March 31, 2009, our sales and gross margin decreased by approximately $597 from the year over year difference in exchange rates for the various currencies (primarily the euro) in which we operate, while our selling, general and administrative expenses were approximately $233 lower due to the fluctuations in exchange rates. The net effect of the year over year fluctuations in exchange rates on our results of operations for the year ended March 31, 2009 was an increase of approximately $365 in our net loss.

We enter into forward foreign exchange contracts from time to time to offset the impact of changes in the value of the euro on our revenue, operating expense and net income and to protect the cash flow from our existing assets valued in foreign currency. Although economic gains or losses on these contracts are generally offset by the gains or losses on underlying transactions, we seek to minimize our foreign currency exposure on a macro basis rather than at the transactional level. We only enter into contracts with major financial institutions that have an A (or equivalent) credit rating. All outstanding foreign exchange contracts are marked-to market at the end of each accounting period with unrealized gains and losses included in results of operations.

As of March 31, 2009, we had no outstanding foreign exchange contracts.

As of March 31, 2008, we had one outstanding foreign exchange contract in the amount of 1,500 euros (equivalent to US dollars of $2,368) with a duration of six months. An unrealized loss of $165 on the contract was included in results of operations under the Other, net caption with the offsetting balance recorded in the Accounts Payable and Accrued Expenses caption on our balance sheet.

Year Ended March 31, 2008 Compared With Year Ended March 31, 2007

Sales of $57,081 for the year ended March 31, 2008 increased by $4,868 from sales of $52,213 in the prior year. The increase was primarily from our European and Australian operations. Our European Operation reported an increase in sales of 33% or $4,608. A portion of the increase was the result of seasonal placements with two customers that did not purchase in the prior year. In addition, expanded business with several European distributors for various products accounted for the balance of the increase. These products included the 12 Language Speaking Global Translator (TGA-490), 12 Language Non-Speaking Global Translator (TGA-470), the Langenscheidt German-French Dictionary (LDF-1660), and the PONS German-English Professor PRO (DBD-1660). The Company s Australian operation also contributed higher sales year over year. Sales increased at key supporting dealers for several categories of products that outperformed last year s contribution, including: Collins Spellchecker (SPQ-109), Collins English Dictionary & Thesaurus (DMQ-119), Collins Bradfords Crossword Solver (CSB-1470U), 12 Language Non-Speaking Global Translator (TGA-470), 10 Language Speaking Translator (TG-480), and the Rolodex Organizer (RT-8212). The overseas operations sales benefited by $2,317 from a weaker US dollar.

Total revenue for the fiscal year ended March 31, 2008 of $60,581 included $3,500 reflected as other operating revenue that we received from two distribution partners, SII and Seiko U.K. Ltd. During the second quarter, we received $3,000 from SII in consideration for the elimination of minimum purchase commitments in the agreement under which SII distributes Franklin products in Japan and we distribute SII products in the United States and Germany. In March 2008, we entered into an agreement with Seiko U.K. Ltd. calling for a one-time payment of $500 to be made to us in consideration for the extension of the distribution agreement under which Seiko U.K. Ltd. distributes Franklin products in the United Kingdom and Ireland.

Gross margin increased by $8,029 primarily because of higher sales in the European business operation contributing $2,478 in gross margin dollars and $3,500 other operating revenue from the SII and Seiko UK agreements. The gross margin percentage, excluding the $3,500, increased by four percent from 46% in the 2007 fiscal year to 50% in the 2008 fiscal year, resulting in an additional increase of $2,283 in margin dollars. The lower gross margin percentage in the 2007 fiscal year resulted primarily from increased mark down and promotion allowances granted to certain customers in our North American operations, higher software

Table of Contents

amortization associated with release of certain new products in the 2008 fiscal year and inventory valuation provisions, primarily for one poorly performing product, in the 2008 fiscal year and the inclusion in the prior year of the higher margin technology licensing agreements. Excluding these agreements the gross margin percentage in the 2007 fiscal year would have been 49%.

Total operating expenses increased to $28,826 for the year ended March 31, 2008 from $27,117 in the same prior year period. Sales and marketing expenses increased by $964 to $16,844 (30% of sales) from $15,880 (30% of sales) in the same prior year period primarily due to increased spending of $371 for the Consumer Electronic Show and attendance at new shows in Europe and North America. Variable expenses for market development funds, freight, and commission increased by $267 due to higher sales. Personnel expense increased by $129 primarily due to corporate development expenses to establish strategic growth initiatives and operational efficiencies. Temporary labor increased by $111 primarily in the European business operation. Research and development expenses decreased by $850 to $3,551 (6% of sales) from $4,401 (8% of sales) in the prior year. The decrease is due to lower personnel and consultant costs related to lower fixed costs due to outsourced development of $495 and lower allocation of management information system (MIS) expense of $217. In addition, higher capitalization of software development work of $141 resulted in a decrease in net expense. General and administrative expenses increased by $1,595 to $8,431 (15% of sales) from $6,836 (13% of sales) in the prior year primarily due to approximately $720 of additional expenses related to the SII and Seiko UK agreements which included an increase in incentive compensation accruals and associated legal and travel expenses. Incremental expenses were incurred for corporate development of $616 to establish strategic growth initiatives and operating efficiencies. Doubtful account expense increased by $399 primarily due to a major customer declaring bankruptcy, partially offset by lower depreciation costs of $221.

For the year ended March 31, 2008 we had net interest income of $116 compared with net interest income of $207 in the same period last year. The decrease in interest income was primarily due to lower interest rates compared to the prior year.

Other, net was a loss of $439 for the year ended March 31, 2008 compared with a loss of $94 in the 2007 fiscal year. For the year ended March 31, 2008 we recorded a loss on our program of selling euros at current rates for future settlement of $564 compared with a loss of $213 in the same period in the prior year. In addition, the 2008 fiscal year included gains of $70 towards the settlement of patent claims compared to $195 in the prior year.

We have operations in a number of foreign countries and record sales and incur expenses in various foreign currencies. As the value of these currencies fluctuate from year to year against the US dollar, our revenues, operating expenses and results of operations are impacted. For the year ended March 31, 2008, approximately 38% of our sales were denominated in currencies other than the US dollar. For the year ended March 31, 2008, our sales and gross margin increased by approximately $2,317 from the year over year difference in exchange rates for the various currencies (primarily the euro) in which we operate, while our selling, general and administrative expenses were approximately $1,253 higher due to the fluctuations in exchange rates. The net effect of the year over year fluctuations in exchange rates on our results of operations for the year ended March 31, 2008 was an increase of approximately $1,064 in our net income.

As of March 31, 2008, we had one outstanding foreign exchange contract in the amount of 1,500 euros (equivalent to US dollars of $2,368) with a duration of six months. An unrealized loss of $165 on the contract was included in results of operations under the Other, net caption with the offsetting balance recorded in the Accounts Payable and Accrued Expenses caption on our balance sheet.

As of March 31, 2007, we had two outstanding foreign exchange contracts in the amounts of 1,500 and 1,000 euros (equivalent to US dollars of $2,004 and $1,336, respectively). The duration of these contracts was six months and three months. An unrealized loss of $154 on the contracts was included in results of operations under the Other, net caption with the offsetting balance recorded in the Accounts Payable and Accrued Expenses caption on our balance sheet.

Table of Contents

Inflation and Currency Transactions

Inflation had no significant effect on our operations for the two years ended March 31, 2009. However, competitive pressures and market conditions in the future may limit our ability to increase prices to compensate for general inflation or increases in prices charged by suppliers.

Our operating results may be affected by fluctuations in currency exchange rates. During the years ended March 31, 2008 and 2009, we entered into several foreign exchange forward contracts with financial institutions to limit our exposure to currency fluctuation loss on sales made by our European subsidiaries.

Seasonality

The back to school season (August to mid-September) and the Christmas selling season (October, November and December) are the strongest selling periods at retail for our products.

The following table sets forth unaudited net sales for each of our last twelve fiscal quarters:

	Quarter Ended June 30	Quarter Ended September 30	Quarter Ended December 31	Quarter Ended March 31
Fiscal 2009*	$ 11,993	$ 12,434	$ 13,535	$ 8,063
Fiscal 2008**	$ 13,675	$ 14,980	$ 17,044	$ 11,382
Fiscal 2007	$ 11,785	$ 12,276	$ 17,179	$ 10,973

* Does not include settlement amounts paid by Nuance of $750.

** Does not include settlement amounts paid by SII and Seiko UK Ltd for $3,000 and $500, respectively.

Future Income Tax Benefits

We have income tax benefits of $18,527 which can be utilized against future earnings and have provided an income tax valuation allowance of $15,527 against these tax assets. The remaining $3,000 balance is based upon our estimate of taxes that would be due and offset against our net operating loss carried forward, based upon our estimate of future earnings.

Changes in Financial Condition

Accounts receivable decreased by $1,743 to $4,357 on March 31, 2009 from $6,100 on March 31, 2008 primarily because of lower sales. Inventory decreased by $1,667 to $7,595 on March 31, 2009 from $9,262 on March 31, 2008 primarily as a result of management s efforts to reduce inventory months on hand in Europe and the United States in line with the current sales levels. We had no outstanding borrowings under our credit facility at the end of each of our last two fiscal years.

Capital Expenditures

As of March 31, 2009 we had no material commitments for capital expenditures.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Liquidity and Capital Resources

Cash and cash equivalents increased to $12,013 at March 31, 2009 from $11,824 at March 31, 2008. Cash provided by operating activities was approximately $2.6 million in fiscal 2009 compared to $4.8 million in fiscal 2008. Cash provided by operating activities included proceeds from a litigation settlement providing a net benefit

Table of Contents

of $600 in fiscal 2009. Cash provided by operating activities in fiscal 2008 included payments from Seiko Instruments, Inc and Seiko U.K. Ltd., providing $3.0 million and $500 respectively, in consideration for the elimination of minimum purchase commitments and of an extension of an existing distribution agreement.

Net cash used in investing activities for fiscal 2009 was approximately $1.3 million, compared to cash provided from investing activities of $300 in fiscal 2008. The increase in cash usage was primarily as a result of a decrease in short-term investments in the current fiscal year compared to the same period in the prior year. Current year investments are in short-term U.S. Treasuries which provide liquidity at minimum risk.

On March 31, 2009, we entered into an amendment (the Amendment) to our Revolving Credit and Security Agreement (the Credit Agreement) with PNC Bank, National Association (PNC) dated December 7, 2004, as amended.

The Amendment modifies the Credit Agreement with PNC by providing for a $8,500 revolving credit facility with sublimits of $1,500 for Letters of Credit, $500 for foreign currency borrowings and subject to certain conditions $5,000 for acquisitions by the Company. The Amendment also modifies the Base Rate (as defined in the Credit Agreement) upon which the Revolving Interest Rate may be determined to be the greater of the Prime Rate, the sum of the Federal Funds Open Rate plus 50 basis points or the Daily LIBOR Rate plus 100 basis points and requires that any Advance made to the Company under the Agreement be fully secured by cash, money market funds and certificates of deposit held by or deposited with PNC. The minimum Fixed Charge Coverage Ratio was amended for the quarter ended March 31, 2009 to no less than .60x to 1.0 and permitted add-back of certain non-cash items to the Company s EBITDA calculation. The minimum Fixed Charge Coverage Ratio reverts back to 1.25x to 1.0 for the fiscal quarter ending June 30, 2009 and each quarter thereafter.

The Credit Agreement contains certain financial covenants and restrictions on indebtedness, business combinations and other related items. The Fixed Charge Coverage Ratio was amended for the March 31, 2009 quarter end, as indicated above, and for the December 31, 2008 quarter end, in both cases to ease the covenant requirement. However, at March 31, 2009, the Company was in breach of the Fixed Charge Coverage Ratio and the Funded Debt to EBITDA Ratio contained in the Amendment. As of March 31, 2009, we had no borrowings under the Credit Agreement. On June 22, 2009, the bank granted a waiver of the covenant breaches specified above.

We rely primarily on our operating cash flow to support our operations. Over the last three years we generated cash flow from operations of $7,728. We believe our cash flow from operations, and existing cash and short-term investment balances will be adequate to satisfy our cash needs for the next twelve months. The amount of credit available under the facility at any time is based upon a formula applied to our accounts receivable and inventory. As of March 31, 2009, we had credit available of $8,500 based on this formula. Our credit availability and borrowings under the facility fluctuate during the year because of the seasonal nature of our business. During the year ended March 31, 2009, maximum availability and borrowings under our Credit Agreement approximated $10,721 and $0, respectively. We do not have any significant capital leases and anticipate that depreciation and amortization for fiscal 2010 will exceed planned capital expenditures.

Critical Accounting Policies and Estimates

Management s Discussion and Analysis of Financial Condition and Results of Operations are based upon our consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. On an ongoing basis, we evaluate these estimates and judgments based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We annually review our financial reporting and disclosure practices

Table of Contents

and accounting policies to ensure that our financial reporting and disclosures provide accurate and transparent information relative to the current economic and business environment. We believe that of our significant accounting policies (see summary of significant accounting policies more fully described in Note 2 of notes to consolidated financial statements), the following policies involve a higher degree of judgment and/or complexity:

Asset Impairment In assessing the recoverability of our fixed assets, goodwill and other non-current assets, which includes the deferred tax asset, we consider changes in economic conditions and make assumptions regarding estimated future cash flows and other factors.

Inventory Valuation We review the net realizable value and forecast demand for our products on a quarterly basis to ensure that inventory is stated at the lower of cost or net realizable value and that obsolete inventory is written off. Factors that could impact forecast demand and selling prices for our products include the timing and success of new product launches, competitor actions, supplier prices and general economic conditions. Although we make every effort to ensure the accuracy of our forecasts of future product demand, any significant unanticipated changes in demand could have a significant impact on the value of our inventory and reported operating results.

Allowance for Bad Debts and Returns We provide an allowance for bad debts and product returns on a monthly basis based upon historical sales, credit and return experience. The adequacy of these allowances is determined by regularly reviewing accounts receivable and returns and applying historical experience to the current balance with consideration given to the current condition of the economy, assessment of the financial position of our customers as well as past payment history and overall trends in past due accounts and returns. Historically, our allowances have been sufficient for any customer write-offs or returns. Although we cannot guarantee future results, management believes its policies and procedures relating to customer exposure are adequate.

Multiple Element Arrangements We occasionally enter into multiple element arrangements, primarily involving the licensing of our software technology which generally includes technology licensing fees and annual support fees. We begin recognizing the related revenue when technology is delivered and accepted by the customer with the total amount being spread evenly over the term of the support agreement. As of March 31, 2009 the unrecognized portion of revenue related to these agreements was $956 and is included in the Deferred Revenue caption on our consolidated balance sheets.

ITEM 7A. ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

We are a small reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this Item.

Table of Contents

ITEM 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS

Table of Contents

Report of Independent Registered Public Accounting Firm

Shareholders and Directors of

Franklin Electronic Publishers, Incorporated

Burlington, New Jersey 08016

We have audited the accompanying consolidated balance sheets of Franklin Electronic Publishers, Incorporated and subsidiaries as of March 31, 2009 and 2008 and the related consolidated statements of operations, shareholders equity and cash flows for each of the three years ended March 31, 2009. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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 Electronic Publishers, Incorporated and subsidiaries as of March 31, 2009 and 2008, and the results of its operations and cash flows for each of the three years ended March 31, 2009 in conformity with accounting principles generally accepted in the United States.

/s/ Radin, Glass & Co., LLP

Certified Public Accountants

New York, New York

June 23, 2009

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands, except for per share data)

	Year Ended March 31,		
	2009	**2008**	**2007**
SALES	$ 46,025	$ 57,081	$ 52,213
OTHER OPERATING REVENUE	750	3,500	
TOTAL REVENUE	46,775	60,581	52,213
COST OF SALES	23,959	28,660	28,321
GROSS MARGIN	22,816	31,921	23,892
EXPENSES:			
Sales and marketing	15,169	16,844	15,880
Research and development	4,371	3,551	4,401
General and administrative	7,093	8,431	6,836
Total operating expenses	26,633	28,826	27,117
OPERATING INCOME (LOSS)	(3,817)	3,095	(3,225)
Interest income, net	1	116	207
Loss on Investment	(370)		
Other, net	(103)	(439)	(94)
INCOME (LOSS) BEFORE INCOME TAXES	(4,289)	2,772	(3,112)
INCOME TAX PROVISION (Note 13)	2,839	237	68
NET INCOME (LOSS)	$ (7,128)	$ 2,535	$ (3,180)
NET INCOME (LOSS) PER COMMON SHARE:			
Basic	$ (0.86)	$ 0.31	$ (0.39)
Diluted	$ (0.86)	$ 0.30	$ (0.39)
WEIGHTED AVERAGE COMMON SHARES:			
Basic	8,273	8,236	8,216
Diluted	8,273	8,458	8,216

See notes to consolidated financial statements.

D-27

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	March 31, 2009	March 31, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 3)	$ 12,013	$ 11,824
Accounts receivable, less allowance for doubtful accounts of $406 and $649	4,357	6,100
Inventories (Note 4)	7,595	9,262
Prepaids and other assets	702	1,017
TOTAL CURRENT ASSETS	24,667	28,203
PROPERTY AND EQUIPMENT (Note 5)	735	1,167
OTHER ASSETS:		
Deferred income tax asset (Notes 2 and 13)	3,000	5,700
Trademark and goodwill (Notes 2 and 7)	1,879	2,265
Software development costs	1,838	2,052
Other assets (Notes 2 and 6)	1,300	2,531
TOTAL OTHER ASSETS	8,017	12,548
TOTAL ASSETS	$ 33,419	$ 41,918
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses (Note 8)	$ 7,356	$ 7,896
Current portion of long-term liabilities Other	69	103
TOTAL CURRENT LIABILITIES	7,425	7,999
OTHER LIABILITIES (Note 9)	1,165	1,219
DEFERRED REVENUE (Note 2)	956	451
DEFERRED GAIN ON SALE AND LEASEBACK (Note 5)	3,141	3,587
SHAREHOLDERS EQUITY (Note 12):		
Common stock, $0.01 par value, authorized 50,000,000 shares, issued and outstanding, 8,273,936 and 8,265,196 shares	83	83
Additional paid in capital	51,255	50,978
Retained earnings (deficit)	(29,212)	(22,084)
Foreign currency translation adjustment (Note 2)	(1,394)	(315)
TOTAL SHAREHOLDERS EQUITY	20,732	28,662
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 33,419	$ 41,918

See notes to consolidated financial statements.

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

	Year Ended March 31, 2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
NET INCOME (LOSS)	$ (7,128)	$ 2,535	$ (3,180)
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO			
NET CASH PROVIDED BY OPERATING ACTIVITIES			
Depreciation and amortization	3,103	3,155	4,251
Provision for losses on accounts receivable	187	543	121
Loss (gain) on disposal of property and equipment	12	3	(31)
Trademark write-down	386		
Stock and options issued for services	271	180	74
Source (use) of cash from change in operating assets and liabilities:			
Accounts receivable	1,556	(27)	19
Inventories	1,667	(807)	(964)
Prepaids and other assets	315	514	127
Accounts payable and accrued expenses	(568)	(1,285)	1
Deferred Tax	2,700		
Other, net	50	(41)	(11)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,551	4,770	407
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(276)	(454)	(789)
Proceeds from sale of property and equipment	15	23	49
Software development costs	(1,020)	(1,020)	(879)
Investment in Kreutzfeldt Electronic Publishing			(852)
Short-term investments		2,088	4,892
Change in other assets	25	(384)	(492)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(1,256)	253	1,929
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common shares	6	56	3
Other liabilities	(33)	(34)	4
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(27)	22	7
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(1,079)	465	261
INCREASE IN CASH AND CASH EQUIVALENTS	189	5,510	2,604
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	11,824	6,314	3,710
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 12,013	$ 11,824	$ 6,314
SUPPLEMENTAL DATA:			
Cash paid (received) during the years:			
Income taxes	$ 115	$ 100	$ (76)
Interest expense	$ 439	$ 94	$ 165

See notes to consolidated financial statements.

D-29

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

(in thousands, except for share data)

	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income*	Total Shareholders Equity
BALANCE MARCH 31, 2006	8,209,771	$ 82	$ 50,650	$ (21,439)	$ (1,041)	$ 28,252
Amortization of deferred compensation expense for shares issued for services and issuance of options	5,450		90			90
Issuance of common shares under employee stock option plan	2,700		3			3
Income for the period				(3,180)		(3,180)
Foreign currency translation adjustment					261	261
BALANCE MARCH 31, 2007	8,217,921	$ 82	$ 50,743	$ (24,619)	$ (780)	$ 25,426
Amortization of deferred compensation expense for shares and options issued for services	7,950		180			180
Issuance of common shares under employee stock option plan	39,325	1	55			56
Income for the period				2,535		2,535
Foreign currency translation adjustment					465	465
BALANCE MARCH 31, 2008	8,265,196	$ 83	$ 50,978	$ (22,084)	$ (315)	$ 28,662
Amortization of deferred compensation expense for shares and options issued for services	8,400		271			271
Termination of unvested restricted stock issued for services	(4,800)					
Issuance of common shares under employee stock option plan	5,140		6			6
Loss for the period				(7,128)		(7,128)
Foreign currency translation adjustment					(1,079)	(1,079)
BALANCE MARCH 31, 2009	8,273,936	$ 83	$ 51,255	$ (29,212)	$ (1,394)	$ 20,732

* Comprehensive income, i.e., net income (loss), plus, or less, the change in foreign currency balance sheet translation adjustments, totaled $(8,207), $3,000 and ($2,919) for the fiscal years ended March 31, 2009, 2008 and 2007 respectively.

See notes to consolidated financial statements.

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except share and per share data)

1. LINE OF BUSINESS

Franklin Electronic Publishers, Incorporated and its wholly-owned subsidiaries (the Company) design, develop, publish, and distribute electronic information on handheld devices, memory media cards and via internet downloads. Other activities represent less than 10% of sales and identifiable assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, after elimination of intercompany accounts and transactions. The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 these estimates.

Inventories:

Inventories are valued at the lower of cost or realizable value determined by the first-in, first-out method of accounting.

Property and Equipment:

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, ranging from three to five years for furniture, equipment, tooling and computer software purchased.

Leasehold improvements are amortized over the term of the lease or the estimated life of the improvement, whichever is shorter. When assets are sold or retired, their cost and related accumulated depreciation are removed from the appropriate accounts. Any gains or losses on dispositions are recorded in current operations. Maintenance and minor repairs are charged to operations as incurred.

Trademark and Goodwill:

The ROLODEX® trademark is carried at the lower of impaired cost or fair value. Goodwill of purchased businesses is recorded at the lower of cost less amortization through March 31, 2002 or fair value.

For the year ended March 31, 2009 the Company recorded a $386 impairment charge against the ROLODEX® trademark.

Accounting for Long-Lived Assets:

The Company reviews long-lived assets, certain identifiable assets and any goodwill related to those assets for impairment at least annually or whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recoverable. To the extent carrying values have exceeded fair values, an impairment loss has been recognized in operating results.

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Other Assets:

Other assets consist primarily of the Company s enterprise resource planning software and certain employment agreements and data conversion software, the components of which are being amortized over useful lives of 3 to 10 years.

Freight Billed:

The Company recognizes amounts billed to customers in sales transactions for shipping and handling as revenue earned for the goods provided and it classifies such billings as sales revenue.

Revenue:

The Company recognizes revenue when it is realized. Approximately 95% of the Company s revenue arises from the shipment of products. The Company considers revenue realized when the product has been shipped or the services have been provided to the customer, and collectability is reasonably assured. The Company s sales are made with right of return or exchange for defective products, generally within one year from the original retail purchase. Revenue is reduced for estimated customer returns and other allowances. Sales returns are generally estimated and recorded based on historical sales and returns information. Products that exhibit unusual sales or return patterns are specifically investigated and analyzed as part of the accounting process.

The Company accrues for mark down money at the time of sale based on historical experience. The accrual is adjusted quarterly based on actual and anticipated claims.

The Company occasionally enters into multiple element arrangements, primarily involving its software technology which generally includes technology licensing fees and annual support fees. The Company begins recognizing the related revenue when technology is delivered and accepted by the customer with the total amount being spread evenly over the term of the support agreement. As of March 31, 2009 the unrecognized portion of revenue related to these agreements was $956 and is included in the Deferred Revenue caption on the Company s balance sheets.

Software Development Costs:

The capitalization of software development costs and the related amortization is in accordance with Statement of Financial Accounting Standards No. 86, Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed . Software costs, which are capitalized after technological feasibility is established, totaled $1,020, $1,020 and $879 for the fiscal years ended March 31, 2009, 2008 and 2007 respectively.

Amortization included in the accompanying Consolidated Statement of Operations for fiscal years ended March 31, 2009, 2008, and 2007, was $1,234, $1,394 and $2,075, respectively.

Advertising Costs:

Advertising costs are expensed as incurred except for direct response advertising, the costs of which are deferred and amortized over the period the related sales are recorded.

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Fair Value of Financial Instruments:

The carrying amounts reported in the balance sheet for cash, trade receivables, accounts payable and accrued expenses approximate fair value based on the short-term maturity of these instruments.

Foreign Currency Translation:

For operations outside of the United States that prepare financial statements in currencies other than the US dollar, the Company translates statement of operations amounts at average monthly exchange rates, and translates assets and liabilities at year-end exchange rates. The Company presents translation adjustments as a component of Foreign currency translation adjustment within shareholders equity. Gains and losses from foreign currency transactions are included in results of operations.

The Company from time to time enters into forward foreign exchange contracts to protect the cash flow from its existing assets valued in foreign currency. Economic gains or losses on these contracts are generally offset by the gains or losses on underlying transactions. The Company only enters into contracts with major financial institutions that have an A (or equivalent) credit rating. All outstanding foreign exchange contracts are marked-to market at the end of each accounting period with unrealized gains and losses included in results of operations.

As of March 31, 2009 the Company had no outstanding foreign exchange contracts.

As of March 31, 2008 the Company had one outstanding foreign exchange contract in the amount of 1,500 euros (equivalent to US dollars of $2,368) with a duration of six months. An unrealized loss of $165 on the contract was included in results of operations under the Other, net caption with the offsetting balance recorded in the Accounts Payable and Accrued Expenses caption on our balance sheets.

Income Taxes:

The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred taxes are determined based on the difference between the financial statement and tax basis of assets and liabilities using tax rates in effect in the years in which the differences are expected to reverse. The Company s $3,000 deferred tax asset is based upon the Company s estimate of taxes that would be due and offset against the Company s net operating loss carry forward, based upon its estimate of future earnings.

Earnings(Loss) Per Share:

Net income (loss) per common share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. The net income per common share computation, assuming dilution, gives effect to all potential dilutive common shares during the period. The computation assumes that the outstanding stock options and warrants were exercised and that the proceeds were used to purchase common shares of the Company.

Stock Based Compensation:

Effective April 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R) (SFAS 123(R)), Share-Based Payment, which establishes accounting for stock-based awards exchanged for employee services. Under the provisions of SFAS 123(R), share-based compensation cost

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employee s requisite service period (generally the vesting period of the equity grant). The Company amortizes stock-based compensation by using the straight-line method. The Company elected to adopt the modified prospective transition method as provided by SFAS 123(R). In accordance with the requirements of the modified prospective transition method, consolidated financial statements for prior year periods have not been restated to reflect the fair value method of expensing share-based compensation.

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option valuation model. The Black-Scholes model incorporates assumptions as to dividend yield, volatility, an appropriate risk-free interest rate and the expected life of the option. Many of these assumptions require management s judgment. The Company s volatility is based upon historical volatility of the Company s stock.

The results of operations for the year ended March 31, 2009 include non-cash compensation expense of approximately $271 for the amortization of restricted shares and stock option expense.

Reclassifications:

Certain reclassifications have been made to the prior years financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or retained earnings.

Web Site Development Costs:

The Company accounts for web site development costs in accordance with Emerging Issues Task Force (EITF) Issue No. 00-2, Accounting for Web Site Development Costs . The Company provides for the capitalization of web site development costs and amortizes the costs over its useful life.

3. CASH AND CASH EQUIVALENTS

The Company classifies as cash equivalents highly liquid investments with maturities of less than ninety days. Occasionally, the Company holds cash at a particular institution in excess of $250, which exceeds the FDIC insurance limits and is therefore uninsured.

4. INVENTORIES

Inventories consist of:

	March 31, 2009	March 31, 2008
Finished products	$ 7,531	$ 9,145
Component parts	64	117
	$ 7,595	$ 9,262

D-34

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

5. PROPERTY AND EQUIPMENT

Property and equipment consist of:

	March 31, 2009	March 31, 2008
Furniture, equipment and leasehold improvements	6,588	6,657
Tooling	5,233	5,112
Computer software purchased	1,547	1,590
	13,368	13,359
Accumulated depreciation and amortization	12,633	12,192
	$ 735	$ 1,167

On January 18, 2006, the Company completed the sale of its headquarters building. The Company entered into an agreement to lease back the building for a term of ten years and three months with an initial annual fixed rent of $737. The Company is responsible for payment of all real estate taxes and utilities, most repairs, and is required to maintain appropriate insurance coverage. It has provided to the Landlord a refundable security deposit of $368. The Company can extend the term of the Lease upon 12 months notice for an additional ten years upon the same terms and conditions, except that the rent shall be 95% of the then Fair Market Value. As of March 31, 2009, a gain of $3,141 on the sale has been deferred and will be recognized over the remaining lease term. The deferred gain is recorded on the consolidated balance sheets under the caption Deferred Gain on Sale and Leaseback.

6. OTHER ASSETS

Other assets consist of:

	March 31, 2009	March 31, 2008
Trademarks and patents	$ 119	$ 125
Enterprise resource planning software (net of amortization of $3,201 and $2,803)	362	775
Advance royalties and licenses	306	325
Other intangible assets (net of amortization of $778 and $175)	0	603
Deposits and other assets	513	703
	$ 1,300	$ 2,531

On March 9, 2009, the Company concluded that an impairment had occurred to the carrying value of other intangible assets allocated to its data conversion subsidiary, Kreutzfeldt Electronic Publishing GmbH (KEP) in Hamburg, Germany. On March 10, 2009, the managing directors of KEP opened insolvency proceedings. The Company recorded a non-cash goodwill impairment charge of $496 in the quarter ending March 31, 2009.

7. TRADEMARK AND GOODWILL

The Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets*, at the beginning of April 2002 for all goodwill and other intangible assets recognized in the Company s statement of financial position. This

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

SFAS changed the accounting for goodwill from an amortization method to an impairment-only approach, and introduces a new model for determining impairment charges.

Upon initial application of SFAS No. 142, the trademark and goodwill are deemed to have an indefinite useful life because they are expected to generate cash flows indefinitely. Thus, the Company ceased amortizing the trademark and goodwill on April 1, 2002.

For the year ended March 31, 2009, the Company recorded a $386 impairment charge against the Rolodex® trademark.

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of:

	March 31,	
	2009	2008
Trade accounts payable	$ 2,595	$ 3,219
Accrued payroll, bonus, benefits and taxes	2,268	2,466
Accrued sales allowances	455	444
Accrued royalties	453	383
Accrued expenses other	937	900
Deferred rent	648	484
	$ 7,356	$ 7,896

9. LONG-TERM LIABILITIES

Long-term liabilities consist of:

	March 31,	
	2009	2008
Post retirement obligation	$ 1,181	$ 1,213
Other	53	109
	1,234	1,322
Less current portion	69	103
	$ 1,165	$ 1,219

The aggregate maturities of the long-term liabilities for the five years after March 31, 2009 are as follows:

Years Ending March 31,

2010	69
2011	66
2012	70
2013	74
2014	79

On March 31, 2009, we entered into an amendment (the Amendment) to the Revolving Credit and Security Agreement (the Credit Agreement) with PNC Bank, National Association (PNC) dated December 7, 2004, as amended.

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

The Amendment modifies the Credit Agreement with PNC by providing for a $8,500 revolving credit facility with sublimits of $1,500 for Letters of Credit, $500 for foreign currency borrowings and subject to certain conditions $5,000 for acquisitions by the Company. The Amendment also modifies the Base Rate (as defined in the Credit Agreement) upon which the Revolving Interest Rate may be determined to be the greater of the Prime Rate, the sum of the Federal Funds Open Rate plus 50 basis points or the Daily LIBOR Rate plus 100 basis points and requires that any Advance made to the Company under the Agreement be fully secured by cash, money market funds and certificates of deposit held by or deposited with PNC. The minimum Fixed Charge Coverage Ratio was amended for the quarter ended March 31, 2009 to no less than ..60x to 1.0 and permitted add-back of certain non-cash items to the Company s EBITDA calculation. The minimum Fixed Charge Coverage Ratio reverts back to 1.25x to 1.0 for the fiscal quarter ending June 30, 2009 and each quarter thereafter.

The Credit Agreement contains certain financial covenants and restrictions on indebtedness, business combinations and other related items. The Fixed Charge Coverage Ratio was amended for the March 31, 2009 quarter end, as indicated above, and for the December 31, 2008 quarter end, in both cases to ease the covenant requirement. However, at March 31, 2009, the Company was in breach of the Fixed Charge Coverage Ratio and the Funded Debt to EBITDA Ratio contained in the Amendment. As of March 31, 2009, we had no borrowings under the Credit Agreement. On June 22, 2009, the bank granted a waiver of the covenant breaches specified above.

Long-term liabilities consist primarily of a post retirement obligation to a former CEO of the Company. The long-term balance of this obligation was $1,015 and $1,050 as of March 31, 2009 and 2008, respectively.

10. ADVERTISING AND MEDIA COSTS

Advertising costs for the years ended March 31, 2009, 2008 and 2007 were $3,055, $3,884, and $3,683, respectively. Deferrals of direct response advertising were not material.

11. COMMITMENTS

Lease Commitments:

Rent expense under all operating leases was $1,173, $1,148, and $1,061, for the years ended March 31, 2009, 2008 and 2007, respectively. The future minimum rental payments to be made under non-cancelable operating leases, principally for facilities, as of March 31, 2009 were as follows:

Years Ending March 31,	
2010	$ 1,226
2011	1,106
2012	1,078
2013	1,120
2014	1,136

Royalty Agreements:

The Company acquires the rights to reference works, databases and technology from various publishers and technology companies under renewable contracts of varying terms. Royalties and license fees are based on a per unit charge or as a percentage of revenue from products utilizing such databases or software licenses. The Company does not believe that there are any net prepayments that will not be earned based upon anticipated future sales.

D-37

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Litigation:

The Company is subject to litigation from time to time arising in the ordinary course of its business. The Company does not believe that any such litigation is likely, individually or in the aggregate, to have a material adverse effect on the financial condition of the Company.

12. SHAREHOLDERS EQUITY

Restricted Stock Plan and Unearned Portion of Common Stock Issued for Services:

The Company s 2005 Restricted Stock Plan provides for the grant of shares of common stock for services. The shares are subject to a restriction on transfer, which requires the holder to remain employed by the Company for up to three years in order to receive the shares. As of March 31, 2009, there were a total of 32,225 shares of common stock available for distribution under both the 2005 Restricted Stock Plan and the prior plan. For the year ended March 31, 2009, 8,400 shares of restricted stock were issued under the 2005 Restricted Stock Plan. The Company recorded non-cash compensation of $20 relating to shares issued under the Company s Restricted Stock Plan for the year ended March 31, 2009.

Employee Stock Options:

Under the Company s 2005 Stock Option Plan (the 2005 Plan), 1,500,000 shares of common stock have been reserved for issuance. The Plan authorizes the Company to grant options to purchase shares of common stock to key employees, consultants and outside directors of the Company.

The 2005 Plan provides for granting of options to purchase shares of common stock at not less than the fair market value on the date of grant. An option may not be granted for a period in excess of ten years from the date of grant. Options are not transferable by the optionee other than upon death. Under the terms of the 2005 Plan, an employee may deliver shares of common stock as payment for options being exercised. The shares are valued at the closing price on the date of exercise. As of March 31, 2009, 713,804 shares remained available for grant under the 2005 Plan.

Accounting for Employee Stock Options:

Effective April 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R) (SFAS 123(R)), Share-Based Payment, which establishes accounting for stock-based awards exchanged for employee services. Under the provisions of SFAS 123(R), share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employee s requisite service period (generally the vesting period of the equity grant). The Company amortizes stock-based compensation by using the straight-line method. The Company elected to adopt the modified prospective transition method as provided by SFAS 123(R). In accordance with the requirements of the modified prospective transition method, consolidated financial statements for prior year periods have not been restated to reflect the fair value method of expensing share-based compensation.

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option valuation model. The Black-Scholes model incorporates assumptions as to dividend yield, volatility, an appropriate risk-free interest rate and the expected life of the option. Many of these assumptions require management s judgment. The Company s volatility is based upon historical volatility of the Company s stock. The results of operations for the year ended March 31, 2009 include non-cash compensation expense of approximately $251 for the amortization of stock option expense.

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for stock options granted during the years ended March 31, 2009, 2008, and 2007, respectively: annual dividends of $0.00 for all years, expected volatility of 70.0%, 42.0% and 42.0%, risk free interest rate of 2.6%, 4.0% and 4.7% and expected life of between 5 and 6.25 years for all grants. The number of shares granted, the weighted-average exercise price and weighted average fair value of the stock options granted during the years ended March 31, 2009, 2008, and 2007 were as follows:

	Number of Shares Granted	Weighted-Average Exercise Price	Weighted-Average Fair Value
Year ended March 31, 2007			
Exercise price equals market value	105,995	$ 2.10	$ 0.95
Year ended March 31, 2008			
Exercise price equals market value	472,178	$ 3.44	$ 1.62
Year ended March 31, 2009			
Exercise price equals market value	475,356	$ 1.17	$ 0.71

The following table summarizes the changes in options outstanding and the related price ranges for shares of common stock:

		Stock Options	
		Shares	Weighted Average Exercise Price
Outstanding at March 31, 2006		2,774,379	4.71
Granted		105,995	2.10
Exercised		(2,700)	1.20
Expired or cancelled		(226,428)	7.16
Outstanding at March 31, 2007		2,651,246	4.40
Granted		472,178	3.44
Exercised		(39,325)	1.40
Expired or cancelled		(321,209)	7.20
Outstanding at March 31, 2008		2,762,890	3.95
Granted		475,356	1.17
Exercised		(5,140)	1.20
Expired or cancelled		(448,347)	4.95
Outstanding at March 31, 2009		2,784,759	3.33
Outstanding options by plan:	1988 Plan	234,570	
	1998 Plan	1,713,993	
	2005 Plan	786,196	
	Outside of Plan	50,000	
	Options available for grant under the 2005 Plan	713,804	

Options available for grant under the 1998 Plan
No options were available for grant under the 1988 Plan

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

The following table summarizes information about stock options outstanding at March 31, 2009:

Range of Exercise Prices		Options outstanding Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable Number Exercisable	Weighted Average Exercise Price
$ 0.89	$ 1.63	778,603	6.68	$ 1.32	353,447	$ 1.44
1.80	2.24	141,870	7.58	$ 2.09	108,245	$ 2.11
2.26	3.14	320,677	5.60	$ 2.88	259,552	$ 2.86
3.45	3.80	513,455	3.98	$ 3.64	513,455	$ 3.63
3.81	4.15	548,530	4.47	$ 3.88	417,731	$ 3.90
4.25	5.69	135,858	2.85	$ 4.79	135,858	$ 4.75
5.75	10.06	345,766	0.74	$ 7.00	345,766	$ 6.82
$ 0.89	$ 10.06	2,784,759		$ 3.33	2,134,054	$ 3.74

Options exercisable and the weighted average exercise price at March 31, 2008 and March 31, 2007, were 2,319,813 options and $4.06, and 2,508,002 options and $4.51, respectively.

13. INCOME TAXES

The components of the net deferred income tax asset are the following:

	March 31, 2009	March 31, 2008
US loss carry forward Franklin	$ 14,254	$ 12,491
Inventory valuation allowances	599	458
Trademark Impairment charge, net of prior amortization	933	1,160
Gain on sale of headquarters building	1,202	1,371
Other items (taxable) deductible in future years net	1,539	1,420
	18,527	16,900
Deferred income tax valuation allowance	15,527	11,200
	$ 3,000	$ 5,700

Deferred income taxes result from temporary differences between income tax and financial reporting computed at the effective income tax rate. A valuation allowance has been provided to reduce the deferred income tax asset to the amount which is expected more likely than not to be realized.

The income tax provision consists of the following:

	Year ended March 31,		
	2009	2008	2007
Federal (Reversal of Deferred Tax Asset 2009)	$ 2,700	$ 41	$ (18)
State and Other	(7)	(14)	24
Foreign	146	210	62
	$ 2,839	$ 237	$ 68

D-40

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

The reconciliation of income taxes shown in the financial statements and amounts computed by applying the Federal income tax rate of 35% for the years ended March 31, 2009, 2008 and 2007 is as follows:

	Year Ended March 31, 2009	2008	2007
Income (loss) before income taxes	$ (4,290)	$ 2,772	$ (3,112)
Computed expected tax	1,502	970	(1,089)
Effect of non-deductible expenses	15	70	20
Reversal of deferred tax asset	2,700	0	0
Foreign tax provision	146	210	62
State tax provision	(7)	27	6
Change in valuation allowance	1,487	(1,040)	1,069
Provision for income taxes	$ 2,839	$ 237	$ 68

Effective April 1, 1997, the Company filed elections with the Internal Revenue Service to treat most of its foreign subsidiaries as divisions of the parent for U.S. income tax reporting.

The loss carry forward and expiration date are as follows:

	Amount	Expiration Date
United States	$ 37,500	2019 - 2028

14. SEGMENT AND GEOGRAPHIC INFORMATION

Information regarding segments is presented in accordance with SFAS No. 131, Disclosure about Segments of an Enterprise and Related Information. Based on the criteria outlined in SFAS No. 131, the Company s operating results are reported by geographical segments. The Company s profit and loss segments are reviewed by the chief operating decision maker of the Company. The assets are reported as one segment, and reported on an aggregate basis. The profit and loss information is provided below:

Year ended March 31, 2009	**North America**	**Europe**	**Other International**	**Other Domestic**	**Corporate**	**Consolidated**
Sales	$ 23,718	$ 15,816	$ 4,844	$ 1,647	$	$ 46,025
Other operating revenue					750	750
Cost of sales	11,625	7,300	2,505	55	2,474	23,959
Gross margin	12,093	8,516	2,339	1,592	(1,724)	22,816
Operating expenses:						
Sales and marketing	7,211	3,878	1,038	408	2,634	15,169

Research and development			97	363	3,911	4,371
General and administrative	303	889	369		5,532	7,093
Total expense	7,514	4,767	1,504	771	12,077	26,633
Operating income	$ 4,579	$ 3,749	$ 835	$ 821	$ (13,801)	$ (3,817)

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Year ended March 31, 2008	**North America**	**Europe**	**Other International**	**Other Domestic**	**Corporate**	**Consolidated**
Sales	$ 32,066	$ 18,422	$ 5,663	$ 930	$	$ 57,081
Other operating revenue					3,500	3,500
Cost of sales	15,591	8,158	2,965	83	1,863	28,660
Gross margin	16,475	10,264	2,698	847	1,637	31,921
Operating expenses:						
Sales and marketing	8,734	4,027	1,320	448	2,315	16,844
Research and development			63	400	3,088	3,551
General and administrative	1,085	1,023	363	(14)	5,974	8,431
Total expense	9,819	5,050	1,746	834	11,377	28,826
Operating income	$ 6,656	$ 5,214	$ 952	$ 13	$ (9,740)	$ 3,095

Year ended March 31, 2007	**North America**	**Europe**	**Other International**	**Other Domestic**	**Corporate**	**Consolidated**
Sales	$ 31,698	$ 13,815	$ 5,836	$ 864	$	$ 52,213
Cost of sales	15,202	6,029	2,945	148	3,997	28,321
Gross margin	16,496	7,786	2,891	716	(3,997)	23,892
Operating expenses:						
Sales and marketing	8,621	3,402	1,395	211	2,251	15,880
Research and development			180	296	3,925	4,401
General and administrative	711	806	366	86	4,867	6,836
Total expense	9,332	4,208	1,941	593	11,043	27,117
Operating income	$ 7,164	$ 3,578	$ 950	$ 123	$ (15,040)	$ (3,225)

For the fiscal years ended March 31, 2009, 2008 and 2007, no customer accounted for more than 10% of the Company s revenues.

For the fiscal year ended March 31, 2009, four suppliers accounted for more than 10% of the Company s purchases of its inventory. The four suppliers individually accounted for 39%, 23%, 11% and 10% of inventory purchases. For the fiscal year ended March 31, 2008, three suppliers accounted for more than 10% of the Company s purchases of its inventory. The three suppliers individually accounted for 29%, 28%, and 13% of inventory purchases. For the fiscal year ended March 31, 2007, four suppliers accounted for more than 10% of the Company s purchases of its inventory. The four suppliers individually accounted for 27%, 23%, 14% and 11% of inventory purchases.

KREUTZFELDT ELECTRONIC PUBLISHING GMBH

On March 9, 2009, the Company concluded that an impairment had occurred to the carrying value of other intangible assets allocated to its data conversion subsidiary, Kreutzfeldt Electronic Publishing GmbH (KEP) in Hamburg, Germany. On March 10, 2009, the managing directors of KEP opened insolvency proceedings. The Company recorded a non-cash goodwill impairment charge of $496 in the year ended March 31, 2009.

JOINT VENTURE AGREEMENT

During the quarter ended September 30, 2006 the Company entered into a joint venture relationship with Keysbond Ltd. of Hong Kong (KB), an electronics development and manufacturing concern, under which the Company and Keysbond incorporated and jointly owned Embedded Linguistic Solutions (HK) Ltd. (ELS), a

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

software development company based in Hong Kong. As of March 31, 2009 the Company and KB entered into a winding up agreement by which ELS ceased operations on April 1, 2009. The winding up agreement obligates the Company to make minimum purchases from Keysbond through January 31, 2010, including minimum purchases of (a) $4,500 during the one year period ending July 31, 2009 and (b) 7.5% of the Company s sales for the six month period ended March 31, 2009. As a result of the winding up agreement, the Company wrote down its net investment of $40 in the year ended March 31, 2009.

ADOBE SYSTEMS INCORPORATED CONTRACT RENEWAL

On August 6, 2008 our Proximity Technology Division (Proximity) announced that Adobe Systems, Inc. (Adobe), a leading provider of graphic design and publishing software worldwide, has extended the term of its long standing license for four years beginning October 1, 2008 for Proximity s spelling error detection and correction, hyphenation, and thesaurus software. The Company will recognize revenue of $6.3 million over the initial four year extension. The agreements provide Adobe with a two year renewal option that if exercised would result in recognition of an additional $3.8 million in revenue over the two year extension period. For the year ended March 31, 2009, $788 of the $6.3 million was included in Sales.

NUANCE COMMUNICATION INC. SETTLEMENT AGREEMENT

On January 8, 2009, the Company resolved litigation, pending on appeal before the United States Court of Appeals for the Third Circuit, against Nuance Communications, Inc. (Nuance) and Caere Corporation (Caere) pursuant to a License and Settlement Agreement (the Agreement) with Nuance and Caere. Under the terms of the Agreement, Nuance and Caere have taken a prospective ten-year royalty bearing license for certain linguistic software that is licensed by Proximity and the Company has released Nuance and Caere from its pending claims. As a result of entering into the Agreement, the Company received a $750 payment and recognized approximately $600 initial benefit (net of related expenses) to net income in the year ending March 31, 2009.

15. VALUATION AND RESERVE ACCOUNTS

Franklin Electronic Publishers, Incorporated

Valuation and Reserve Accounts

For the years ended March 31, 2009, 2008 and 2007

(in thousands)

	Balance at Beginning of Period	Charges to Revenue or Expenses	Deductions	Balance at End of Period
Allowance for Bad Debts:				
Year ended March 31, 2009	$ 649	$ 160	$ 403(1)	$ 406
Year ended March 31, 2008	$ 306	$ 551	$ 208(1)	$ 649
Year ended March 31, 2007	$ 280	$ 121	$ 95(1)	$ 306
Allowance for Sales Returns:				
Year ended March 31, 2009	$ 500	$ 1,532	$ 1,635(2)	$ 397
Year ended March 31, 2008	$ 655	$ 2,509	$ 2,664(2)	$ 500

Year ended March 31, 2007	$ 1,116	$ 3,199	$ 3,660(2)	$ 655
Allowance for Mark Downs:				
Year ended March 31, 2009	$ 261	$ 610	$ 598(3)	$ 272
Year ended March 31, 2008	$ 418	$ 359	$ 516(3)	$ 261
Year ended March 31, 2007	$ 40	$ 886	$ 508(3)	$ 418

D-43

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Notes:

(1) Write-offs of Accounts Receivable net of recoveries.
(2) Return offset against provision.
(3) Mark Downs offset against provision.

16. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the Financial Accounting Standard Board (the FASB) issued SFAS No. 141(R), Business Combination (SFAS 141(R)). SFAS 141(R) requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. This statement is effective for fiscal years beginning after December 15, 2008. The Company does not believe that SFAS No. 141(R) will have a material impact on its financial position, results of operations, or cash flows.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interest In Consolidated Financial Statements (SFAS 160). SFAS 160 requires all entities to report noncontrolling (minority) interests in subsidiaries in the same way as equity in the consolidated financial statements. Moreover, SFAS 160 eliminates the diversity that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. This statement is effective for fiscal years beginning after December 15, 2008. The Company does not believe that SFAS 160 will have a material impact on its financial position, results of operations, or cash flows.

In February 2008, the FASB issued FASB Staff Position 157-2, Effective Date of FASB Statement No. 157, which delays the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company believes the adoption of the delayed items of SFAS 157 will not have a material impact on its financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161), an amendment of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). This statement is intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity s derivative instruments and hedging activities and their effects on the entity s financial position, financial performance, and cash flows. SFAS 161 applies to all derivative instruments within the scope of SFAS 133, as well as related hedged items, bifurcated derivatives, and nonderivative instruments that are designated and qualify as hedging instruments. Entities with instruments subject to SFAS 161 must provide more robust qualitative disclosures and expanded quantitative disclosures. SFAS 161 is effective prospectively for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. The Company does not believe that SFAS 161 will have a material impact on its financial position, results of operations, or cash flows.

In May 2008, the FASB issued Statement No. 163, Accounting for Financial Guarantee Insurance Contracts an interpretation of FASB Statement No. 60 (SFAS 163). SFAS 163 requires recognition of an insurance claim liability obligation. SFAS 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. Early application is not permitted. The Company s adoption of SFAS 163 will not have a material impact on its financial statements.

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

In May 2009, the FASB issued SFAS No. 165, Subsequent Events (SFAS No. 165). SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, it provides that the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 is effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively.

In April 2008, the FASB issued FASB Staff Position (FSP) No. SFAS 142-3, Determination of the Useful Life of Intangible Assets (FSP SFAS 142-3). FSP SFAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). The intent of FSP SFAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R (revised 2007), Business Combinations (SFAS No. 141R) and other applicable accounting literature. FSP SFAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and must be applied prospectively to intangible assets acquired after the effective date. The application of FSP SFAS 142-3 did not have a material impact on the Company s financial condition, results of operations and cash flows upon adoption; however, future transactions entered into by the Company will need to be evaluated under the requirements of this FSP.

In June 2008, the FASB ratified EITF Issue No. 07-5, Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity s Own Stock (EITF 07-5). EITF 07-5 provides that an entity should use a two step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument s contingent exercise and settlement provisions. It also clarifies on the impact of foreign currency denominated strike prices and market-based employee stock option valuation instruments on the evaluation. EITF 07-5 is effective for fiscal years beginning after December 15, 2008. The implementation of this standard is not expected to have a material impact on the Company s financial position and results of operations.

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

17. SUMMARIZED QUARTERLY FINANCIAL DATA (unaudited)

	Quarter Ended			
	June 30	**September 30**	**December 31**	**March 31**
Fiscal 2009				
Net sales	$ 11,993	$ 12,434	$ 13,535	$ 8,063
Other operating revenue				750
Total Revenue	$ 11,993	$ 12,434	$ 13,535	$ 8,813
Gross margin	5,864	5,975	7,154	3,823
Net income (loss)	(1,163)	(231)	733	(6,467)
Net income (loss) per common share:				
Basic	(.14)	(.03)	.09	(.78)
Diluted	(.14)	(.03)	.09	(.78)
Fiscal 2008				
Net sales	$ 13,675	$ 14,980	$ 17,044	$ 11,382
Other operating revenue		3,000		500
Total Revenue	$ 13,675	$ 17,980	$ 17,044	$ 11,882
Gross margin	6,797	10,069	8,524	6,531
Net income (loss)	68	2,782	741	(1,056)
Net income (loss) per common share:				
Basic	.01	.34	.09	(0.13)
Diluted	.01	.33	.09	(0.13)
Fiscal 2007				
Net sales	$ 11,785	$ 12,276	$ 17,179	$ 10,973
Gross margin	5,322	5,536	8,111	4,923
Net income (loss)	(1,039)	(898)	393	(1,636)
Net income (loss) per common share:				
Basic	(0.13)	(0.11)	.05	(0.20)
Diluted	(0.13)	(0.11)	.05	(0.20)

ITEM 9. ***CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE***
NONE

ITEM 9A(T). ***CONTROLS AND PROCEDURES***
As of March 31, 2009 (the end of the period covered by this report), our management carried out an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

In designing and evaluating our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934), management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. We believe that our disclosure controls and procedures provide such reasonable assurance.

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share data)

Our senior management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and Rule 15d-15(f) under the Securities Exchange Act of 1934), designed provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act.

Because of inherent limitations, a system of internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has evaluated the effectiveness of its internal control over financial reporting as of March 31, 2009 based on the criteria set forth in a report entitled Internal Control Integrated Framework , issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, we have concluded that, as of March 31, 2009, our internal control over financial reporting is effective based on those criteria.

This annual report on Form 10-K does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting of the Company. Our management report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only management s report in this annual report.

No change occurred in our internal controls concerning financial reporting during the fourth quarter ended March 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 9B. ***OTHER INFORMATION***
NONE

D-47

Table of Contents

PART III

ITEM 10. *DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE*

Name of Directors	Principal Occupation	Age	Became a Director
Edward H. Cohen	Counsel, Katten Muchin Rosenman LLP	70	1987
Barry J. Lipsky	President and Chief Executive Officer of the Company	58	1997
Leonard M. Lodish	Professor of Marketing, Wharton School of the University of Pennsylvania	65	1987
James Meister	Retired Executive, formerly President, Chief Executive Officer and Non-Executive Chairman, Kings Super Markets, Inc.	67	1996
Howard L. Morgan	President, Arca Group Inc.	63	1981
Jerry R. Schubel	President, Aquarium of the Pacific	73	1991
James H. Simons	Chairman of the Board, Renaissance Technologies LLC	71	1983
William H. Turner	Acting Dean, College of Business, Montclair State University	69	1994

No family relationship exists between any director and executive officer of the Company.

Mr. Cohen is counsel to the law firm of Katten Muchin Rosenman LLP, with which he has been affiliated since 1963. He is a director of Phillips-Van Heusen Corporation, a manufacturer and marketer of apparel and footwear, Gilman Ciocia, Inc., a financial services and tax preparation firm, and Merrimac Industries, Inc., a manufacturer of radio frequency (RF) microwave signal processing components and subsystem assemblies.

Mr. Lipsky joined us as Vice President in February 1985. He was elected our Executive Vice President in 1997, Interim President and Chief Operating Officer in April 1999 and our President and Chief Executive Officer in May 1999. Mr. Lipsky has been a Director or Managing Director of our Hong Kong subsidiary since its inception in 1985 and Chairman of such subsidiary since May 2008. Prior to joining us and from 1972, Mr. Lipsky was employed by Mura Corporation of Hicksville, New York, a designer and importer of consumer electronic products and custom components.

Dr. Lodish is the Samuel R. Harrell Professor of Marketing at the Wharton School of the University of Pennsylvania and since 2001, he has been the Vice Dean, Wharton West at the Wharton School. He has been a Professor of Marketing since 1976, and was Chairman of the Marketing Department of the Wharton School from 1984 to 1988 and 1992 to 1994. He is a director of J&J Snack Foods, Inc., a producer and marketer of specialty foods.

Mr. Meister retired in August 2004 after serving as the Non-Executive Chairman of Kings Super Markets, Inc., a food retailer owned by Marks & Spencer p.l.c, since October 2003. Prior to July 1998, Mr. Meister had been employed with Kings Super Markets, Inc. for twenty-four years. Mr. Meister was President and Chief Executive Officer of Kings Super Markets, Inc. from 1988 until July 1998.

Dr. Morgan is, and for more than the past six years has been, President of Arca Group, Inc., a consulting and investment management firm, and since January 1999 has been a director of and consultant to Idealab, which

Table of Contents

creates and operates internet companies. Since 2005, he has been a partner of First Round Capital, a venture investment firm. Dr. Morgan was Professor of Decision Sciences at the Wharton School of the University of Pennsylvania from 1972 through 1986. He is a director of Internet Brands, Inc.

Dr. Schubel became President and Chief Executive Officer of the Aquarium of the Pacific in Long Beach, California in June 2002. Prior to that he was President and Chief Executive Officer of the New England Aquarium from 1994 to 2001, and Dean and Director of the Marine Sciences Research Center of the State University of New York at Stony Brook from 1974 to 1994. He is a director of the International Resources Group and Institute for Learning Innovation.

Dr. Simons has been Chairman of the Board of Renaissance Technologies Corp. (now Renaissance Technologies LLC) since 1982, Chief Executive Officer since January 2008 and served as President from 1982 to 2008. He served as Chairman of our Board of Directors from 1997 to 2005. Dr. Simons is a director of the Paul Simons Foundation, The Simons Foundation, and Math for America, Inc.

Mr. Turner has been Acting Dean of the College of Business of Montclair State University since July 1, 2008. Mr. Turner was the founding Dean of the College of Business of Stony Brook University and served as Dean from January 2004 to January 2008. Mr. Turner was Senior Partner of Summus Ltd., a consulting firm, from October 2002 to December 2003. Mr. Turner retired as Chairman of PNC Bank, New Jersey in September 2002 after joining the bank as President in August, 1997. He served as our President and Co-Chief Executive Officer from October 1, 1996 to August 1997. Prior to joining us, he was Vice Chairman of The Chase Manhattan Bank. For more than the prior thirty years, Mr. Turner held a variety of positions at Chemical Banking Corporation prior to its merger with Chase Manhattan Bank. Mr. Turner is a director of Standard Motor Products, Inc., a manufacturer of automotive replacement products, Volt Information Sciences, Inc., a provider of varied equipment and services to the telecommunications and print media industries, New Jersey Resources Corporation, a provider of energy services, and Ameriprise Financial Services.

Committees of the Board of Directors

Our Board of Directors has three standing committees: an Audit Committee, a Stock Option and Compensation Committee (Compensation Committee) and a Corporate Governance and Nominating Committee.

The Audit Committee currently consists of Dr. Morgan and Messrs. Meister and Cohen. Mr. Cohen serves as the chairman of the Audit Committee. All current members of the Audit Committee are independent as defined in Section 803 of the NYSE AMEX listing standards and Rule 10A-3 of Securities Exchange Act of 1934, as amended (Exchange Act). The Audit Committee s function is to provide assistance to the Board of Directors in fulfilling the Board s oversight functions relating to the quality and integrity of our financial reports, monitor our financial reporting process and internal control system, and perform such other activities consistent with its charter and our By-laws as the Audit Committee or the Board of Directors deems appropriate. The Audit Committee is directly responsible for the appointment, compensation and oversight of the work of the outside auditors (including resolution of disagreements between our management and the outside auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The Audit Committee must pre-approve all audit and non-audit services to be provided to the Company by its outside auditors. The Audit Committee carries out all functions required to be performed by it by NYSE AMEX, the Securities and Exchange Commission (the SEC) and the federal securities laws. The Board of Directors has determined that Dr. Morgan, in addition to being independent , qualifies as an audit committee financial expert as defined in Item 407 of Regulation S-K of the Exchange Act. During the fiscal year ended March 31, 2009, the Audit Committee met or acted by unanimous consent on seven occasions. The Audit Committee has adopted a written charter, a copy of which is available on our website at www.franklin.com.

Drs. Simons and Morgan and Mr. Meister currently serve on the Compensation Committee. Mr. Meister serves as the chairman of the Compensation Committee. All current members of the Compensation Committee are independent as defined in Section 803 of the NYSE AMEX listing standards. The Compensation Committee

Table of Contents

is charged with administering our 1988 Stock Option Plan, 1998 Stock Option Plan, as amended and restated, 2005 Stock Option Plan, a Restricted Stock Plan, as amended and restated, and the 2005 Restricted Stock Plan and setting the compensation levels, including salaries and bonuses, of our Chief Executive Officer and, on the recommendation of our Chief Executive Officer, other senior executives. The Compensation Committee met or acted by unanimous consent on four occasions during the fiscal year ended March 31, 2009. The Compensation Committee has adopted a written charter, a copy of which is available on our website at www.franklin.com.

The Corporate Governance and Nominating Committee currently consists of Drs. Morgan, Lodish and Schubel and Messrs. Cohen, Meister, and Turner. Each member of the Corporate Governance and Nominating Committee is independent as defined in Section 803 of the NYSE AMEX listing standards. Mr. Cohen serves as the chairman of the Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee is responsible for (1) identifying and recommending to the Board of Directors individuals qualified to become Board and Committee members; (2) maintaining that a majority of the Board of Directors members are independent and that all the members of the Audit, Compensation and the Corporate Governance and Nominating Committees are independent as required; (3) developing and recommending to the Board of Directors a set of corporate governance principles applicable to us; and (4) addressing corporate governance issues and recommending proposals and actions for the Board s consideration. We have not paid any third party a fee to assist in the process of identifying and evaluating candidates for director. We have not received any nominees for director from a stockholder who owns more than 5% of our voting stock. During the fiscal year ended March 31, 2009, the Corporate Governance and Nominating Committee met or acted by unanimous consent on one occasion. The Corporate Governance and Nominating Committee has adopted a written charter, a copy of which is available on our website at www.franklin.com.

During the fiscal year ended March 31, 2009, the Board of Directors met or acted by unanimous consent on seven occasions**.** Each director, other than James H. Simons, attended at least 75% of the aggregate number of meetings of the Board of Directors and of any Committees of the Board on which they served.

We do not have a policy on attendance by directors at our Annual Meeting. All of the current directors attended our 2008 Annual Meeting held on August 20, 2008 except for James H. Simons, James Meister, and Leonard Lodish.

Executive Officers of the Registrant

NAME	AGE	POSITION
Barry J. Lipsky	58	President and Chief Executive Officer; Director
Frank A. Musto	52	Vice President, Chief Financial Officer; Treasurer; Secretary
Toshihide Hokari	39	Senior Vice President and Chief Operating Officer
Walter Schillings	48	Managing Director, European Operations

Mr. Musto joined us as Vice President, Chief Financial Officer in September 2007. Prior to joining us, Mr. Musto had served as Chief Financial Officer of Polarome International, Inc., a manufacturer and distributor of flavor and fragrance ingredients. Mr. Musto was a member of the Executive Committee and Advisory Board of Directors of Polarome since 2002. From July 2000 through September 2001, Mr. Musto served as Chief Financial Officer, Treasurer, and Secretary, and a member of the Board of Directors of Matchbook FX Holdings, Inc. Previously, Mr. Musto was Vice President, Chief Financial Officer and a member of the Board of Directors of JLM Industries, Inc. (NASDAQ) from 1986 through 2000.

Mr. Hokari returned to us as Vice President, Chief Corporate Development Officer in September 2007 and became Chief Operating Officer in May 2008 and Senior Vice President in June 2008. Prior to rejoining us, since 2004, Mr. Hokari was Director and Senior Director, Product Management of Altec Lansing (a Division of

Table of Contents

Plantronics, Inc.), a consumer electronics company. Mr. Hokari previously worked with us from 1996-1999 as a Product Manager and from 1999-2004 holding various positions, including Vice President, Product Management.

Mr. Schillings joined us in April 1996 as Managing Director Germany and became Managing Director Central Europe in 2000. In August 2004, Mr. Schillings assumed responsibility for all of our business in Continental Europe, managing multiple subsidiaries and distributors. In April 2008, Mr. Schillings responsibility was extended to cover business in the United Kingdom. Prior to joining us, Mr. Schillings owned his own business, SYSTECH GmbH.

Code of Ethics

We have adopted a code of ethics that applies to our chief executive officer and chief financial officer, our principal executive officer and principal financial officer, respectively, and all of our other financial executives. We have also adopted a code of ethics applicable to all employees, officers and directors. We make both codes of ethics available free of charge through our website, www.franklin.com. We will disclose on our website amendments to or waivers from the codes of ethics in accordance with all applicable laws and regulations.

Section 16(a) Beneficial Ownership Reporting Compliance

Based upon a review of the filings furnished to us pursuant to Rule 16a-3(e) promulgated under the Exchange Act and on representations from its executive officers, directors and persons who beneficially own more than 10% of the Common Stock, all filing requirements of such persons under Section 16(a) of the Exchange Act were complied with in a timely manner during the fiscal year ended March 31, 2009.

Shareholder Communications With The Board Of Directors

Any shareholder or other interested party who desires to communicate with our Chairman of the Board of Directors or any of the other members of the Board of Directors may do so by writing to: Board of Directors, c/o Chief Executive Officer, Franklin Electronic Publishers, Incorporated, One Franklin Plaza, Burlington, NJ 08016. Communications may also be addressed to the Chairman of the Board, an individual director, a Board Committee, the non-management directors or the full Board. Communications received by the Chief Executive Officer or Chairman of the Board will then be distributed to the appropriate directors unless they determine that the information submitted constitutes spam, pornographic material and/or communications offering to buy or sell products or services.

On February 18, 2009, the Company s Board of Directors approved an amendment (the Amendment) to the Company s By-laws (the By-laws). Section 3-15 was added to the By-laws to state that a shareholder must give notice of any business, including nominations of persons to the Registrant s Board of Directors, proposed to be brought before annual meetings of shareholders not less than 90 days and not more than 120 days prior to the anniversary date of the Company s annual meeting of shareholders in the immediately preceding year or, in the case of a special meeting of shareholders, not less than 90 days and not more than 120 days prior to the date of the Company s special meeting of shareholders, and to outline applicable information requirements and procedures for the shareholder request. Section 3-15 further provides that shareholders continue to be entitled to the benefits of, and must also comply with all applicable requirements of, the Exchange Act, as amended. The Amendment is incorporated by reference as Exhibit 3.10 to this Form 10-K.

Table of Contents

ITEM 11. ***EXECUTIVE COMPENSATION***

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($) (7)	All Other Compensation ($) (8)	Total ($)
Barry Lipsky	2009	381,300			17,734	23,000(1)	422,034
President and Chief Executive Officer	2008	381,300	124,790(9)		7,705	23,058(2)	536,853
Frank Musto	2009	200,000			8,973	16,300(3)	225,273
Vice President & Chief Financial Officer	2008	200,000	36,397(9)		3,367	8,754(4)	253,133
Toshihide Hokari	2009	200,000			12,772	5,885(5)	218,657
Senior Vice President and Chief Operating Officer	2008	200,000	39,997(9)		5,611	3,208(6)	248,816

(1) Consists of $15,000 for a car allowance and $8,000 for Company 401(k) contributions.
(2) Consists of $15,000 for a car allowance and $8,058 for Company 401(k) contributions.
(3) Consists of $10,000 for a car allowance and $6,300 for Company 401(k) contributions.
(4) Consists of $5,385 for a car allowance and $3,369 for Company 401(k) contributions.
(5) Consists $ 5,885 for Company 401(k) contributions.
(6) Consists $ 3,208 for Company 401(k) contributions.
(7) Reflects the dollar amount recognized for financial statement reporting purposes in accordance With SFAS 123R.
(8) For potential payments upon termination due to a change in control of the Company, please see page 47.
(9) For the fiscal year ended March 31, 2008, of the named executive officers included in the Summary Compensation Table herein, Mr. Lipsky. Mr. Musto and Mr. Hokari were eligible to participate in our Senior Executive Bonus Plan. Based on Mr. Musto s and Mr. Hokari s start date of September 2007, their respective incentive bonuses under the Senior Executive Bonus Plan were prorated accordingly. For the fiscal year ended March 31, 2008, the incentive bonus pool consisted of the following amounts of consolidated pre-tax earnings for the distribution as cash bonuses to such executive officers of the Company: No amounts for the first $1.2 million of consolidated pretax earnings: 8% of the next $1.2 million of consolidated pre-tax earnings shall be paid to Mr. Lipsky, with up to an additional 12% of such Consolidated pre-tax earnings to be shared by the remaining senior executive officers eligible to participate in our Senior Executive Bonus Plan in amounts not to exceed 4% of such consolidated pre-tax earnings based on the recommendation of Mr. Lipsky and approval of the Compensation Committee for any such other participating senior executive officer; and 4% of any amounts of consolidated pre-tax earnings in excess of $2.4 million shall be paid to Mr. Lipsky, with up to an additional 6% of such consolidated pre-tax earnings to be shared by such remaining senior executive officers in amounts not to exceed 2% of such consolidated pre-tax earnings based on the recommendation of Mr. Lipsky and approval of the Compensation Committee for any such other participating senior executive officer.

D-52

Table of Contents

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

The following table sets forth certain information with respect to the value of all equity awards that were outstanding at the fiscal year ended March 31, 2009 for each of the Named Executive Officers:

Option Awards

Name	Number Of Securities Underlying Unexercised Options (#) Exercisable	Number Of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date
Barry J. Lipsky	150,000		5.750	05/05/09
	36,000		7.500	06/23/10
	50,000		7.500	06/23/10
	30,000		2.800	06/20/11
	106,119		3.500	03/11/12
	30,000		1.200	06/26/12
	30,000		2.700	10/08/13
	37,500		3.840	10/04/14
	37,500		3.800	10/31/15
	12,500	37,500	3.820	10/01/17
		37,500	1.400	10/07/18
Toshihide Hokari	12,500	37,500	2.950	09/04/17
		25,000	1.400	10/07/18
Frank A. Musto	7,500	22,500	2.950	09/04/17
		20,000	1.400	10/07/18

Under our 1998 and 2005 Stock Option Plans, stock options vest in equal installments over four years from the date of grant.

D-53

Table of Contents

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

In order to comply with the provisions of Section 409A of the Internal Revenue Code, as amended, on December 23, 2008 the Stock Option and Compensation Committee approved a revised Executive Severance Protection plan. The provision included in the following table summarizes estimated benefits that would have been payable to Mr. Lipsky if the employment of such Named Executive Officer had been terminated on March 31, 2009 by us for any reason including constructive termination (other than for cause or by death) or following a change of control of the Company:

Name		Termination or upon a Change of Control
Barry Lipsky		
Severance(1)	$	953,250

(1) Reflects severance of one-and one-half months salary for each year of employment subject to a 30 month maximum. Upon termination, this amount would be paid as salary continuation to Mr. Lipsky. In the event of a Change of Control any amounts paid shall be in a lump sum amount six months from the date of termination of employment provided, however, that if at the termination date the common stock of the Company and its controlled group members is no longer traded on an established securities market or otherwise, then such lump sum payment shall be made on the termination date.

Mr. Musto and Mr. Hokari would each have been paid $50,000 if the employment of such Named Executive Officer had been terminated on March 31, 2009 or during the first three years of their respective start dates of September, 2007 by us for any reason (other than cause or by death). One month of additional severance and benefit continuation will accrue each year following the third full year of employment up to a maximum of six months. The following table summarizes estimated benefits that would have been payable at March 31, 2009 following a change in control:

Name		Change of Control		Termination Following a Change of Control
Frank Musto	$	100,000(1)	$	100,000(2)
Toshihide Hokari	$	100,000(1)	$	100,000(2)

(1) Reflects severance of 50% of base salary upon a Change of Control, payable in lump sum within five days following such Change of Control.

(2) Reflects severance of 50% of base salary upon any termination of employment (including Constructive Termination) by the Company or an acquiring or successor entity within one year after the Change of Control (except discharge for Cause or death). Any such payment(s) shall be made in a lump sum five days following such termination.

Although not a Named Executive Officer, the following table summarizes additional benefits that would be payable to Mr. Walter Schillings, if his employment had been terminated on March 31, 2009. (i) by us without important cause (as defined in Mr. Schilling s employment agreement) and other than due to a change of control of the Company, (ii) by us following a change of control of the Company, or (iii) by us during the last six months of his contract period.

Name	Termination by the Company Without Important Cause and Other Than a Change of Control	Termination by the Company Following a Change of Control	Termination by the Company During the Last Six Months of Employment Period

Walter Schillings						
Severance	$	612,168(1)	$	612,168(2)	$	102,028(3)

(1) Reflects severance of base salary at March 31, 2009 for the remainder of the term based on the exchange rate at March 31, 2009.

Table of Contents

(2) Reflects severance of 24 months of base salary at March 31, 2009 based on the exchange rate at March 31, 2009.
(3) Reflects severance of six months of base salary at March 31, 2009 based on the exchange rate at March 31, 2009.

In addition, for each of the Named Executive Officers listed above, stock options held by such Named Executive Officer vest upon termination following a change of control.

Severance Policy

We have instituted a severance policy for each of our employees in the United States that provides that if such employee is terminated by us without cause (cause shall include failure to report for work), he or she shall receive his or her then base salary and shall continue to be covered under his or her benefit plan for a number of weeks equal to the number of full years of prior employment, plus one week up to a maximum of six months.

Table of Contents

DIRECTOR COMPENSATION

The following table summarizes the compensation we paid to our directors who are not employees during the fiscal year ended March 31, 2009.

Name	Fee Earned or Paid in Cash ($)	Option Awards (1) ($)	Total ($)
Edward H. Cohen	12,500	16,996	29,496
Leonard M. Lodish	10,000	16,996	26,996
James Meister	15,000	16,996	31,996
Howard L. Morgan	15,000	16,996	31,996
Jerry R. Schubel	10,000	16,996	26,996
James H. Simons	0	16,996	16,996
William H. Turner	10,000	16,996	26,996

(1) Reflects the dollar amount recognized for financial statement reporting purposes in accordance with SFAS 123R. Each non-employee director in the table above received 33,708 options to purchase Common Stock on January 2, 2009 at an exercise price of $.89 per share. The total number of stock options held by such directors at March 31, 2009 was as follows: Dr. Simons, 147,649 shares; Dr. Morgan, 150,069 shares; Mr. Cohen, 147,649 shares; Dr. Schubel, 147,649 shares; Mr. Turner, 142,633 shares; Dr. Lodish, 146,319 shares; and Mr. Meister 137,694 shares.

Compensation of Directors

Each director who is not our employee or an employee of any of our subsidiaries receives, for his services as a director of the Company, a non-discretionary annual grant of options to purchase the number of shares of Common Stock equal to the greater of (x) 3,000 or (y) the number derived by dividing $30,000 by the fair market value of a share of Common Stock on the date of grant. For the fiscal year ended March 31, 2009, in addition to the stock options described above, each non-employee director, other than Dr. Simons, received an annual fee of $10,000 for serving on the Board of Directors. Members of the Audit and Compensation Committees, other than Dr. Simons, received an additional fee of $2,500 for each committee on which they serve.

Table of Contents

ITEM 12. ***SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS***

The following table sets forth certain information regarding the ownership of Common Stock as of May 29, 2009 by (i) all those known by us to be the beneficial owners of more than five percent of the Common Stock, (ii) all directors, (iii) each of our executive officers named in the Summary Compensation Table on page 45 hereof and (iv) all of our executive officers and directors as a group. Unless otherwise indicated, each of the shareholders has sole voting and investment power with respect to the shares listed as beneficially owned by such shareholder.

Name and Address of Beneficial Owner	Title	Amount and Nature of Beneficial Ownership	Percent of Class
Saunders Acquisition Corporation 2 Briarwood Court Princeton Jct., NJ 08550	Beneficial owner of 5% or more of Common Stock	3,812,647(1)	42.53%
Shining Sea Limited c/o Bermuda Trust Company Ltd. Trustee Compass Point, 9 Bermudian Road Hamilton HM11, Bermuda	Beneficial owner of 5% or more of Common Stock	1,684,638(2)	20.35%
Marcy Lewis 11111 Biscayne Boulevard North Miami, FL 33181	Beneficial owner of 5% or more of Common Stock	945,350(3)	11.42%
James H. Simons c/o Renaissance Technologies LLC 800 Third Avenue New York, NY 10022	Director	574,656(4)	6.82%
Dimensional Fund Advisors 1299 Ocean Avenue, 11th Floor Santa Monica, CA 90401	Beneficial owner of 5% or more of Common Stock	542,964(5)	6.56%
Barry J. Lipsky(6)	President, Chief Executive Officer and Director	418,941	4.85%
Howard L. Morgan(6)	Chairman of the Board of	189,319(7)	2.25%

	Directors		
Jerry R. Schubel(6)	Director	162,462	1.93%
William H. Turner(6)	Director	165,633	1.97%
Leonard M. Lodish(6)	Director	156,319	1.86%
Edward H. Cohen(6)	Director	152,735	1.81%
James Meister(6)	Director	150,694	1.79%
Walter Schillings(6)	Managing Director, European Operations	40,577	*
Toshihide Hokari(6)	Chief Operating Officer	12,600	*
Frank A. Musto(6)	Chief Financial Officer	9,400	*
All executive officers and directors as a group (11 persons)		2,033,336	20.90%

D-57

Table of Contents

* less than 1%

(1) According to a Schedule 13D filed with the SEC on May 29, 2009, Saunders Acquisition Corporation (Saunders) is a company owned by Barry J. Lipsky, the Company s President and Chief Executive Officer, Toshihide Hokari, the Company s Chief Operating Officer, and Frank A. Musto, the Company s Chief Financial Officer, to which Howard L. Morgan, Chairman of the Company s Board of Directors, James H. Simons, a Director of the Company, Marcy Lewis, a shareholder of the Company, and Shining Sea Limited, an exempted company organized under the laws of the Island of Bermuda which holds shares of the Company s common stock for the benefit of Dr. Simons and his family (collectively, the Group) have agreed to contribute their shares of the Company s common stock upon Franklin s Board of Directors approving a merger agreement with Saunders. According to the Schedule 13D, Saunders was formed to effect an acquisition of all of the Company s outstanding shares of common stock, other than those shares owned by the Group. According to the Schedule 13D, all of the shares of the Company s common stock reported as owned beneficially by Saunders are held by members of the Group.

(2) Held by Shining Sea Limited, a Bermuda company. Over 98% of Shining Sea Limited is owned by certain trusts created under the laws of the Islands of Bermuda for the benefit of James H. Simons and his family. The trustee of such trusts is Bermuda Trust Company Ltd. Less than 2% of Shining Sea Limited is owned by the Simons Foundation which has no voting rights with respect to such shares. Accordingly all voting and disposition power with respect to the common stock is held by Bermuda Trust Company Limited. Also see Schedule 13D filed with the SEC on May 29, 2009.

(3) Information as to shares of Common Stock owned by Marcy Lewis is as set forth in to a Schedule 13D dated May 29, 2009 as filed with the SEC.

(4) Includes 16,954 shares held by or for the benefit of members of Dr. Simons immediate family and 53 shares held by Renaissance Ventures Ltd., of which Dr. Simons is the chairman and sole shareholder. Dr. Simons disclaims beneficial ownership of such shares. Does not include shares held by Bermuda Trust Company Ltd. Dr. Simons disclaims beneficial ownership of such shares.

(5) Information as to shares of Common Stock owned by Dimensional Fund Advisors is as of December 31, 2007 as set forth in an amendment to its Schedule 13G dated February 9, 2009 as filed with the SEC.

(6) The address of our directors and executive officers is Franklin Electronic Publishers, Incorporated, One Franklin Plaza, Burlington, New Jersey 08016.

(7) Includes 5,250 shares held for the benefit of Dr. Morgan s children. Dr. Morgan disclaims beneficial ownership of such shares.

The shares of Common Stock in the foregoing table have not been pledged or otherwise deposited as collateral, are not the subject matter of any voting trust or other similar agreement and are not the subject of any contract providing for the sale or other disposition of securities other than those shares as to which Saunders Acquisition Corporation has a right to receive as described in footnote 1, above.

The foregoing table also includes shares of Common Stock which the following directors have the right to acquire within sixty days upon the exercise of stock options as follows: Dr. Simons, 147,649 shares; Mr. Lipsky, 369,619 shares; Dr. Morgan, 150,069 shares; Mr. Cohen, 147,649 shares; Dr. Schubel, 147,649 shares; Mr. Turner, 142,633 shares; Dr. Lodish, 146,319 shares; and Mr. Meister 137,694 shares. The foregoing table also includes shares of Common Stock which all named executive officers who are not directors, as a group, have the right to acquire within sixty days upon the exercise of stock options as follows: Mr. Schillings, 40,577 shares; Mr. Hokari, 12,500 shares; and Mr. Musto, 7,500.

On May 20, 2009, Saunders Acquisition Corporation (Saunders), a company owned of Barry J. Lipsky, the Company s President and Chief Executive Officer, Toshihide Hokari, the Company s Chief Operating Officer and Frank A. Musto, the Company s Chief Financial Officer to which Howard L. Morgan, Chairman of the Company s Board of Directors, James H. Simons, a Director of the Company, Marcy Lewis, a shareholder of the Company and Shining Sea Limited, an exempted company organized under the laws of the Island of Bermuda which holds shares of the Company s common stock for the benefit of Dr. Simons and his family

Table of Contents

(collectively, the Group) have agreed to contribute their shares of the Company s common stock upon Franklin s Board of Directors approving a merger agreement with Saunders, submitted to the Company s Board of Directors an unsolicited, non-biding proposal to purchase all shares of the Company s common stock not owned by the Group for a price of $2.35 per share. Franklin s Board of Directors has appointed a Special Committee comprised of independent Board members to consider Saunders s proposal and other proposals.

Equity Compensation Plan Information

The following table gives information about our common stock that may be issued upon the exercise of options, warrants and rights under all of our existing equity compensation plans as of March 31, 2009, including our 1988 Stock Option Plan, our 1998 Stock Option Plan, as amended and restated, our 2005 Stock Option Plan, our Restricted Stock Plan, as amended and restated, our 2005 Restricted Stock Plan and various stock option agreements to which we are a party.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	2,734,759	$ 3.31	746,029(2)
Equity compensation plans not approved by security holders(1)	50,000	$ 4.00	
Total	2,784,759	$ 3.33	746,029

(1) Pursuant to a Stock Option Agreement entered into between the Company and Arnold D. Levitt. In July 1999, in connection with the hiring of Arnold D. Levitt, our former Senior Vice President, we entered into a Stock Option Agreement pursuant to which we granted Mr. Levitt a ten year option to purchase 50,000 shares of common stock at an exercise price of $4.00 per share, the fair market value of the common stock on the date of grant. On November 12, 2007, Arnold D. Levitt retired from Franklin. Options granted under this Stock Option Agreement have fully vested and will expire two years from his retirement date.

(2) We maintain a Restricted Stock Plan, as amended and restated, and a 2005 Restricted Stock Plan, which provide for the grant of shares of common stock for services. The shares are subject to a restriction on transfer which requires the holder to remain employed by the Company for up to three years in order to receive the shares. As of March 31, 2009, 32,225 shares of common stock were available for future issuance under the restricted stock plans and 713,804 shares of common stock were available for issuance under our stock option plans.

ITEM 13. ***CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE***

The law firm of Katten Muchin Rosenman LLP, of which Edward H. Cohen, a director of the Company, is counsel, was engaged as our outside counsel for the fiscal year ended March 31, 2009 and will continue to be so engaged for the fiscal year ending March 31, 2010. Legal fees for services rendered by Katten Muchin Rosenman LLP to us during the fiscal year ended March 31, 2009 did not exceed 5% of the revenues of such firm for its most recent fiscal year. Mr. Cohen does not share in the fees paid by us to Katten Muchin Rosenman LLP and Mr. Cohen s compensation is not based on such fees.

Table of Contents

Related Party Transaction Procedures

The Board of Directors has assigned responsibility for reviewing related party transactions to our Audit Committee. The Board of Directors and the Audit Committee have adopted a written policy pursuant to which certain transactions between us or our subsidiaries and any of our directors or executive officers must be submitted to the Audit Committee for consideration prior to the consummation of the transaction as required by the rules of the SEC. The Audit Committee reports to the Board of Directors on all related party transactions considered. During the fiscal year ended March 31, 2009, no related party transactions were submitted to the Audit Committee.

Independence of Directors

As required by the listing standards of the NYSE AMEX, a majority of the members of our Board of Directors must qualify as independent, as affirmatively determined by our Board of Directors. Our Board of Directors determines director independence based on an analysis of such listing standards and all relevant securities and other laws and regulations regarding the definition of independent .

Consistent with these considerations, after review of all relevant transactions and relationships between each director, any of his family members, and us, our executive officers and our independent registered public accounting firm, the Board of Directors has affirmatively determined that a majority of our Board of Directors is comprised of independent directors. Our independent directors pursuant to Section 803 of the NYSE AMEX listing standards are Drs. Morgan, Lodish, Simons and Schubel and Messrs. Cohen, Meister, and Turner.

ITEM 14. ***PRINCIPAL ACCOUNTANT FEES AND SERVICES***
Principal Accountant Fees And Services

Audit Fees. The aggregate fees billed or to be billed by Radin, Glass & Co., LLP for each of the last two fiscal years for professional services rendered for the audit of our annual financial statements, review of financial statements included in our quarterly reports on Form 10-Q and services that were provided in connection with statutory and regulatory filings or engagements were $185,000 for the fiscal year ended March 31, 2009 and $158,000 for the fiscal year ended March 31, 2008.

Audit-Related Fees. The aggregate fees billed by Radin, Glass & Co., LLP for each of the last two fiscal years for assurance and related services that were reasonably related to the performance of the audit or review of our financial statements were $23,000 for the fiscal year ended March 31, 2009 and $16,268 for the fiscal year ended March 31, 2008. The nature of the services performed for these fees was primarily in connection with the audit of our 401(k) plan and audit consulting in connection with Section 404 internal controls matters under the Sarbanes-Oxley Act of 2002.

Tax Fees. The aggregate fees billed by Radin, Glass & Co., LLP in each of the last two fiscal years for professional services rendered for tax compliance, tax advice and tax planning were $46,000 for the fiscal year ended March 31, 2009 and $43,000 for the fiscal year ended March 31, 2008. The nature of the services performed for these fees was primarily for preparation of tax returns.

All Other Fees. The aggregate fees billed by Radin, Glass & Co., LLP in each of the last two fiscal years for products and services other than those reported in the three prior categories were $1,000 for the fiscal year ended March 31, 2009 and $1,560 for the fiscal year ended March 31, 2008. The nature of the services performed for these fees was primarily in connection with potential acquisitions in 2009 and 2008.

Table of Contents

Policy on Pre-Approval of Services Provided by Independent Registered Accounting Firm

The Audit Committee has established policies and procedures regarding pre-approval of all services provided by the independent registered public accounting firm. The Audit Committee annually reviews and pre-approves the services that may be provided by the independent registered public accounting firm without obtaining specific pre-approval from the Audit Committee. Unless a type of service has received general pre-approval, it requires specific pre-approval by the Audit Committee if it is to be provided by the independent registered public accounting firm. The Audit Committee may delegate, subject to any rules or limitations it may deem appropriate, to one or more designated members of the Audit Committee the authority to grant such pre-approvals; provided, however, that the decisions of any member to whom authority is so delegated to pre-approve an activity shall be presented to the full Audit Committee at its next scheduled meeting. The Audit Committee has delegated such pre-approval authority to Edward H. Cohen, Chair of the Audit Committee. The Audit Committee pre-approved all audit and permitted non-audit services that were provided on account of the fiscal year ended March 31, 2009.

Table of Contents

PART IV

ITEM 15. ***EXHIBITS AND FINANCIAL STATEMENT SCHEDULES***

(a) (1) Financial statements and schedules filed as a part of this report are listed on the Index to Financial Statements contained herein. All other schedules are omitted because (i) they are not required under the instructions, (ii) they are inapplicable or (iii) the information is included in the financial statements.

(2) Financial Statement Schedules

Schedule	Description	Page
II	Valuation and Reserve Accounts, Three Years ended March 31, 2009	37

(b) Exhibits

D-62

Table of Contents

EXHIBITS

EXHIBITS NO.	
3.01	Certificate of Incorporation of Franklin (Incorporated by reference to Exhibit 3.01 to Registration Statement on Form S-1, File No. 3-6612 (the Company s 1986 S-1 Registration Statement))
3.02	Articles of Amendment to the Certificate of Incorporation of Franklin (Incorporated by reference to Exhibit 3.02 to the Company s 1990 report on Form 10-K for the year ended March 31, 1990 (the Company s 1990 10-K))
3.03	Articles of Amendment to the Certificate of Incorporation of Franklin (Incorporated by reference to Exhibit 3.3 to the Company s Registration Statement on Form 8-A, as amended, filed on October 31, 2003)
3.04	Amended and Restated Statement of Rights and Preferences of Series A 10% Convertible Preferred Stock (Incorporated by reference to the Exhibit to the Company s Report on Form 8-K filed May 23, 2001)
3.05	By-laws of Franklin (Incorporated by reference to Exhibit 3.02 to the Company s 1986 S-1 Registration Statement)
3.06	Amendment to By-laws of Franklin (Incorporated by reference to Exhibit A to the Company s Proxy Statement relating to the 1987 Annual Meeting of Shareholders)
3.07	Amendment to By-laws of Franklin (Incorporated by reference to Exhibit 3.05 to the Company s 1990 Form 10-K)
3.08	Amendment to By-laws of Franklin (Incorporated by reference to Exhibit 3.06 of the Company s 1991 report on Form 10-K for the year ended March 31, 1991)
3.09	Amendment to By-laws of Franklin (Incorporated by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K filed on November 14, 2007)
3.10	Amendment to By-laws of Franklin (Incorporated by reference to Exhibit 3.1 of the Company s Current Report on Form 8-K filed on February 24, 2009)
10.01	Standard form of Sales Representative Agreement (Incorporated by reference to Exhibit 10.07 to the Company s 1986 S-1 Registration Statement)
10.02**	Franklin Restricted Stock Plan, as amended (Incorporated by reference to Exhibit 10.13 to the Company s report on Form 10-K for the year ended March 31, 1987)
10.03**	Franklin Stock Option Plan as Amended and Restated effective as of July 24, 1996 (Incorporated by reference to the Company s Proxy Statement relating to the 1996 Annual Meeting of Shareholders)
10.04**	Franklin Stock Option Plan as Amended and Restated effective July 20, 2001 (Incorporated by reference to Exhibit 4 to the Company s Registration Statement on Form S-8 filed on August 27, 2001)
10.05**	Stock Option Agreement dated July 28, 1999 between the Company and Arnold D. Levitt (Incorporated by reference to Exhibit 4(e) to the Company s Registration Statement on form S-8 filed on December 14, 1999)
10.06**	Stock Option Agreement dated April 8, 2002 between the Company and Andrew Horsfall (Incorporated by reference to Exhibit 10.6 to the Company s Annual Report on Form 10-K filed on June 29, 2005)

Table of Contents

EXHIBITS NO.	
10.07**	Stock Option Agreement dated August 12, 2002 between the Company and Kurt A. Goszyk (Incorporated by reference to Exhibit 10.07 to the Company s Annual Report on Form 10-K filed on June 29, 2004)
10.08	Revolving Credit and Security Agreement by and among the Company, Franklin Electronic Publishers (Europe) LTD., Franklin Electronic Publishers (Deutschland) GMBH and PNC Bank, National Association, dated December 7, 2004. (Incorporated by reference to Exhibit 10.01 to the Company s Quarterly Report on Form 10-Q filed on February 14, 2005)
10.09**	Bonus Plan (Incorporated by reference to the Company s Current Report on Form 8-K filed on May 26, 2005)
10.10	Framework for Technology Agreement by and between Amazon.com, Inc. and the Company dated March 30, 2005 (Incorporated by reference to the Exhibit 10.10 to the Company s Annual Report on Form 10-K filed on June 29, 2005)
10.11**	Amendment dated January 1, 2005 to Stock Option Agreement dated August 12, 2002 between the Company and Kurt A. Goszyk (Incorporated by reference to Exhibit 10.11 to the Company s Annual Report on Form 10-K filed on June 29, 2005)
10.12**	2005 Stock Option Plan (Incorporated by reference to the Company s Proxy Statement relating to the 2005 Annual Meeting of Shareholders)
10.13**	2005 Restricted Stock Plan (Incorporated by reference to the Company s Proxy Statement relating to the 2005 Annual Meeting of Shareholders)
10.14	Agreement of sale, dated as of November 14, 2005 between the Company and Berk-Cohen Associates Investment Co., LLC (Incorporated by reference to the Company s Current Report of Form 8-K filed on January 24, 2006)
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Table of Contents

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21.1+	List of Subsidiaries of the Company

Table of Contents

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32.1++	Chief Executive Officer s Certificate, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2++	Chief Financial Officer s Certificate, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

** Management contract or compensatory plan or arrangement required to be filed as an exhibit to this form pursuant to Item 15(c) of this report.

+ Filed herewith

++ Furnished herewith

D-66

Table of Contents

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.

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

Dated: June 29, 2009

By: /s/ BARRY J. LIPSKY

Barry J. Lipsky

President and Chief Executive Officer

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/ BARRY J. LIPSKY **Barry J. Lipsky**	President, Chief Executive Officer and Director *(Principal Executive Officer)*	June 29, 2009
/s/ FRANK A. MUSTO **Frank A. Musto**	Vice President, Chief Financial Officer, Treasurer and Secretary *(Principal Financial and Accounting Officer)*	June 29, 2009
/s/ EDWARD H. COHEN **Edward H. Cohen**	Director	June 29, 2009
/s/ LEONARD M. LODISH **Leonard M. Lodish**	Director	June 29, 2009
/s/ JAMES MEISTER **James Meister**	Director	June 29, 2009
/s/ HOWARD L. MORGAN **Howard L. Morgan**	Director	June 29, 2009
/s/ JERRY R. SCHUBEL **Jerry R. Schubel**	Director	June 29, 2009
/s/ JAMES H. SIMONS **James H. Simons**	Director	June 29, 2009

/s/ WILLIAM H. TURNER	Director	June 29, 2009
William H. Turner		

EXHIBITS INDEX

EXHIBITS NO.	
3.01	Certificate of Incorporation of Franklin (Incorporated by reference to Exhibit 3.01 to Registration Statement on Form S-1, File No. 3-6612 (the Company s 1986 S-1 Registration Statement))
3.02	Articles of Amendment to the Certificate of Incorporation of Franklin (Incorporated by reference to Exhibit 3.02 to the Company s 1990 report on Form 10-K for the year ended March 31, 1990 (the Company s 1990 10-K))
3.03	Articles of Amendment to the Certificate of Incorporation of Franklin (Incorporated by reference to Exhibit 3.3 to the Company s Registration Statement on Form 8-A, as amended, filed on October 31, 2003)
3.04	Amended and Restated Statement of Rights and Preferences of Series A 10% Convertible Preferred Stock (Incorporated by reference to the Exhibit to the Company s Report on Form 8-K filed May 23, 2001)
3.05	By-laws of Franklin (Incorporated by reference to Exhibit 3.02 to the Company s 1986 S-1 Registration Statement)
3.06	Amendment to By-laws of Franklin (Incorporated by reference to Exhibit A to the Company s Proxy Statement relating to the 1987 Annual Meeting of Shareholders)
3.07	Amendment to By-laws of Franklin (Incorporated by reference to Exhibit 3.05 to the Company s 1990 Form 10-K)
3.08	Amendment to By-laws of Franklin (Incorporated by reference to Exhibit 3.06 of the Company s 1991 report on Form 10-K for the year ended March 31, 1991)
3.09	Amendment to By-laws of Franklin (Incorporated by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K filed on November 14, 2007)
3.10	Amendment to By-laws of Franklin (Incorporated by reference to Exhibit 3.1 of the Company s Current Report on Form 8-K filed on February 24, 2009)
10.01	Standard form of Sales Representative Agreement (Incorporated by reference to Exhibit 10.07 to the Company s 1986 S-1 Registration Statement)
10.02**	Franklin Restricted Stock Plan, as amended (Incorporated by reference to Exhibit 10.13 to the Company s report on Form 10-K for the year ended March 31, 1987)
10.03**	Franklin Stock Option Plan as Amended and Restated effective as of July 24, 1996 (Incorporated by reference to the Company s Proxy Statement relating to the 1996 Annual Meeting of Shareholders)
10.04**	Franklin Stock Option Plan as Amended and Restated effective July 20, 2001 (Incorporated by reference to Exhibit 4 to the Company s Registration Statement on Form S-8 filed on August 27, 2001)
10.05**	Stock Option Agreement dated July 28, 1999 between the Company and Arnold D. Levitt (Incorporated by reference to Exhibit 4(e) to the Company s Registration Statement on form S-8 filed on December 14, 1999)
10.06**	Stock Option Agreement dated April 8, 2002 between the Company and Andrew Horsfall (Incorporated by reference to Exhibit 10.6 to the Company s Annual Report on Form 10-K filed on June 29, 2005)

Table of Contents

EXHIBITS NO.

10.07**	Stock Option Agreement dated August 12, 2002 between the Company and Kurt A. Goszyk (Incorporated by reference to Exhibit 10.07 to the Company s Annual Report on Form 10-K filed on June 29, 2004)
10.08	Revolving Credit and Security Agreement by and among the Company, Franklin Electronic Publishers (Europe) LTD., Franklin Electronic Publishers (Deutschland) GMBH and PNC Bank, National Association, dated December 7, 2004. (Incorporated by reference to Exhibit 10.01 to the Company s Quarterly Report on Form 10-Q filed on February 14, 2005)
10.09**	Bonus Plan (Incorporated by reference to the Company s Current Report on Form 8-K filed on May 26, 2005)
10.10	Framework for Technology Agreement by and between Amazon.com, Inc. and the Company dated March 30, 2005 (Incorporated by reference to the Exhibit 10.10 to the Company s Annual Report on Form 10-K filed on June 29, 2005)
10.11**	Amendment dated January 1, 2005 to Stock Option Agreement dated August 12, 2002 between the Company and Kurt A. Goszyk (Incorporated by reference to Exhibit 10.11 to the Company s Annual Report on Form 10-K filed on June 29, 2005)
10.12**	2005 Stock Option Plan (Incorporated by reference to the Company s Proxy Statement relating to the 2005 Annual Meeting of Shareholders)
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+ Filed herewith

++ Furnished herewith

Table of Contents

ANNEX E

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: June 30, 2009

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission File No. 001-13198

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania	**22-2476703**
(State or other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
One Franklin Plaza, Burlington, New Jersey	**08016-4907**
(Address of Principal Executive Office)	**(Zip Code)**

(609) 386-2500

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ¨ Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definition of large accelerated filer , accelerated filer , and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company x

Indicate by check mark whether Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

NUMBER OF SHARES OF COMMON STOCK, PAR VALUE $0.01 PER SHARE

OUTSTANDING AS OF AUGUST 5, 2009: **8,278,083**

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2009

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

(unaudited)

	June 30, 2009	March 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 8,091	$ 12,013
Accounts receivable, less allowance for doubtful accounts of $437 and $406	6,617	4,357
Inventories	10,688	7,595
Prepaids and other assets	853	702
TOTAL CURRENT ASSETS	26,249	24,667
PROPERTY AND EQUIPMENT	667	735
OTHER ASSETS:		
Deferred income tax asset	3,000	3,000
Trademark and goodwill	1,879	1,879
Software development costs	1,860	1,838
Other assets	1,219	1,300
TOTAL OTHER ASSETS	7,958	8,017
TOTAL ASSETS	$ 34,874	$ 33,419
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 8,915	$ 7,356
Current portion of long-term liabilities Other	69	69
TOTAL CURRENT LIABILITIES	8,984	7,425
OTHER LIABILITIES	1,175	1,165
DEFERRED REVENUE	498	956
DEFERRED GAIN ON SALE AND LEASEBACK	3,029	3,141
SHAREHOLDERS EQUITY:		
	83	83

Common stock, $0.01 par value, authorized 50,000,000 shares, issued and outstanding, 8,274,858 and 8,273,936 shares		
Additional paid in capital	51,370	51,255
Retained earnings (deficit)	(29,089)	(29,212)
Foreign currency translation adjustment	(1,176)	(1,394)
TOTAL SHAREHOLDERS EQUITY	21,188	20,732
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 34,874	$ 33,419

See notes to consolidated financial statements.

E-3

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands, except for per share data)

(unaudited)

	Three Months Ended June 30,	
	2009	**2008**
SALES	$ 10,620	$ 11,993
COST OF SALES	5,321	6,129
GROSS MARGIN	5,299	5,864
EXPENSES:		
Sales and marketing	2,932	3,559
Research and development	543	980
General and administrative	1,643	1,684
Severance		348
Total operating expenses	5,118	6,571
OPERATING INCOME (LOSS)	181	(707)
Interest income, net	8	6
Loss on Investment		(370)
Other, net	(17)	(41)
INCOME (LOSS) BEFORE INCOME TAXES	172	(1,112)
INCOME TAX PROVISION	49	51
NET INCOME (LOSS)	123	(1,163)
INCOME (LOSS) PER COMMON SHARE:		
Basic	$ 0.01	$ (0.14)
Diluted	$ 0.01	$ (0.14)
WEIGHTED AVERAGE COMMON SHARES:		
Basic	8,274	8,270
Diluted	8,364	8,380

See notes to consolidated financial statements.

E-4

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

(in thousands, except for share data)

	Common Stock			Retained Earnings /	Accumulated Other	Total
	Shares	Amount	Additional Paid in Capital	(Deficit)	Comprehensive Income	Shareholders Equity
BALANCE MARCH 31, 2009	8,273,936	$ 83	$ 51,255	$ (29,212)	$ (1,394)	$ 20,732
Amortization of deferred compensation expense for shares and options issued for services			114			114
Issuance of common shares under employee stock option plan	922		1			1
Loss for the period				123		123
Foreign currency translation adjustment					218	218
BALANCE JUNE 30, 2009 (unaudited)	8,274,858	$ 83	$ 51,370	$ (29,089)	$ (1,176)	$ 21,188

See notes to consolidated financial statements.

E-5

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME (LOSS)	$ 123	$ (1,163)
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation and amortization	489	715
Provision for losses on accounts receivable	32	32
Gain on disposal of property and equipment	22	
Non Cash Compensation	114	75
Source (use) of cash from change in operating assets and liabilities:		
Accounts receivable	(2,292)	(1,819)
Inventories	(3,093)	(1,122)
Prepaids and other assets	(151)	(76)
Accounts payable and accrued expenses	1,021	1,311
Deferred revenue	(458)	(86)
Other, net	(11)	(1)
NET CASH USED IN OPERATING ACTIVITIES	(4,204)	(2,134)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(63)	(41)
Software development costs	(255)	(255)
Change in other assets	268	(52)
NET CASH USED IN INVESTING ACTIVITIES	(50)	(348)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common shares	1	6
Other liabilities	114	(27)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	115	(21)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	217	123
DECREASE IN CASH AND CASH EQUIVALENTS	(3,922)	(2,380)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	12,013	11,824
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 8,091	$ 9,444

See notes to consolidated financial statements.

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, in thousands)

Reference is made to the financial statements included in the Company s Annual Report (Form 10-K) filed with the Securities and Exchange Commission for the year ended March 31, 2009.

The financial statements for the periods ended June 30, 2009 and 2008 are unaudited and include all adjustments necessary to a fair presentation of the results of operations for the periods then ended. All such adjustments are of a normal recurring nature. The results of the Company s operations for any interim period are not necessarily indicative of the results of the Company s operations for a full year.

OPERATIONS

Information regarding segments is presented in accordance with the Statement of Financial Accounting Standards (SFAS) 131, Disclosure about Segments of an Enterprise and Related Information . Based on the criteria outlined in SFAS No. 131, the Company s operating results are reported by geographical segments. The Company s profit and loss segments are reviewed by the chief operating decision maker of the Company. The assets are reported as one segment, and reported on an aggregate basis. The profit and loss information is provided below:

Quarter ended June 30, 2009	**North America**	**Europe**	**Other International**	**Other Domestic**	**Corporate**	**Consolidated**
Sales	$ 5,079	$ 3,686	$ 1,251	$ 604	$	$ 10,620
Cost of sales	2,712	1,650	638	27	294	5,321
Gross margin	2,367	2,036	613	577	(294)	5,299
Operating expenses:						
Sales and marketing	1,450	658	176	21	627	2,932
Research and development				97	446	543
General and administrative	33	252	79		1,279	1,643
Total expense	1,483	910	255	118	2,352	5,118
Operating income (loss)	$ 884	$ 1,126	$ 358	$ 459	$ (2,646)	$ 181

Quarter ended June 30, 2008	**North America**	**Europe**	**Other International**	**Other Domestic**	**Corporate**	**Consolidated**
Sales	$ 6,618	$ 3,992	$ 1,252	$ 131	$	$ 11,993
Cost of sales	3,137	1,805	557	28	602	6,129
Gross margin	3,481	2,187	695	103	(602)	5,864
Operating expenses:						
Sales and marketing	1,707	836	231	100	685	3,559
Research and development				103	877	980
General and administrative	59	284	105		1,236	1,684
Severance	154				194	348
Total expense	1,920	1,120	336	203	2,992	6,571
Operating income (loss)	$ 1,561	$ 1,067	$ 359	$ (100)	$ (3,594)	$ (707)

For the three months ended June 30, 2009 and June 30, 2008 no customer accounted for more than 10% of the Company s revenue.

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited, in thousands)

For the quarter ended June 30, 2009, three suppliers each accounted for more than 10% of the Company s purchases of inventory. The three suppliers individually accounted for 35%, 30% and 19% of inventory purchases.

For the quarter ended June 30, 2008, three suppliers accounted for more than 10% of the Company s purchases of inventory. The three suppliers individually accounted for 39%, 27% and 14% of inventory purchases.

ACQUISITION PROPOSAL

On June 1, 2009 the Company announced that it has received a copy of a Schedule 13D filed with the Securities and Exchange Commission relating to a non-binding proposal by Saunders Acquisition Corporation (Saunders) for an all cash acquisition at $2.35 per share. According to its Schedule 13D filing, Saunders is a newly formed Delaware corporation founded by existing management of the Company who, together with existing shareholders who are members of the Saunders group, beneficially own shares or options to purchase shares representing 43.7% of the voting power of the Company. Taking into account only options expected to be exercised at the time of any vote on their proposal, such persons will own 39.9% of the voting power of the Company.

The Company s Board of Directors has appointed a Special Committee comprised of independent Board members to consider the Saunders proposal and other proposals.

LEGAL PROCEEDINGS

The Company is subject to litigation from time to time arising in the ordinary course of its business. The Company does not believe that any such litigation is likely, individually or in the aggregate, to have a material adverse effect on the financial condition of the Company.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2009, the Financial Accounting Standards Board (the FASB) issued SFAS No. 165, Subsequent Events (SFAS No. 165). SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, it provides that the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 is effective for interim or annual financial periods ending after June 15, 2009. SFAS 165 was adopted by the Company as required on June 30, 2009. The adoption of SFAS 165 did not have a material impact on the Company s results of operations or financial position.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140 (SFAS No. 166). SFAS No. 166 eliminates the Qualified Special Purpose Entity (QSPE) concept, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies the derecognition criteria and revises how retained interests are initially measured. SFAS No. 166 is effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. The Company will adopt SFAS No. 166 in fiscal 2011 and is evaluating the impact it will have to its consolidated financial statements.

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited, in thousands)

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 (FAS 168). On the effective date of FAS 168, the FASB Accounting Standards Codification (Codification) will become the source of authoritative U.S. generally accepted accounting principles. Following FAS 168, the FASB will not issue new standards in the form of Statements, FASB Staff Positions or EITF Abstracts. Instead, it will issue Accounting Standards Updates to update the Codification. FAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009 and shall be applied prospectively. The adoption of FAS 168 will not have a material impact on the Company.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (in thousands)

This 2009 Quarterly Report on Form 10-Q may contain statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Those statements include statements regarding the intent and belief or current expectations of Franklin and its management team. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements. Such risks and uncertainties include, among other things, the affects of the depressed economic conditions both in the United States and Europe, the timely availability and acceptance of new electronic books and other electronic products, changes in technology, the successful integration of acquisitions, the impact of competitive electronic products, the dependence on a small number of manufacturers for purchases of inventory, the management of inventories, dependence on key licenses, titles and products, dependence on sales to a small group of customers, dependence on third party component suppliers, including those that provide Franklin-specific parts, credit risk and other risks and uncertainties that may be detailed herein, and from time-to-time, in Franklin s reports filed with the Securities and Exchange Commission. Franklin undertakes no obligation to publicly update any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

RESULTS OF OPERATIONS

Overview

For the quarter ended June 30, 2009, net income increased by $1,286 to income of $123 from a loss of $1,163 in the same period last year. Sales decreased by $1,373 primarily from our North American business operation due to the slowdown in consumer spending from the depressed worldwide economic situation that affected sales in all of our global retail markets. Gross margin dollars declined by $565 primarily from the decreased sales. Operating expense decreased by $1,453 to $5,118 in the current period from $6,571 in the prior year period due to cost savings initiatives including a reduction in workforce in May 2008 and March 2009.

Sales of monolingual products in our North American business operation have been trending downward over the past several years primarily due to indirect competition from the internet, computer and mobile applications providing consumers with alternative solutions (often free) for their spell correction and reference needs. The downward trend has been partially offset by growth in our bilingual products in the North American market. In addition, the continuing uncertainty in the financial markets has had a negative impact on consumer spending which in turn contributed to our shortfall in sales for the three months ended June 30, 2009. Despite these pressures we improved our gross margin by 1% compared with the first quarter of 2008 and have benefited from our efforts to become more cost effective by the reduction in operating expenses of 22% quarter on quarter.

Three months ended June 30, 2009 compared with three months ended June 30, 2008:

Net Sales

Sales of $10,620 for the quarter ended June 30, 2009 decreased by $1,373 from sales of $11,993 for the same quarter last year. The decrease was primarily due to lower sales in the retail markets from our North American business operation as a result of the worldwide economic downturn and its impact on consumer spending. Sales in our North American business operations, our largest retail market, declined by $1,539 or 23%. Sales in our European business operations declined by $306 primarily due to lower sales through the retail markets and the negative impact of a weaker euro to the US dollar partially offset by a purchase from a new customer. Sales in our Proximity Technology Division (Proximity) increased by $500 to $570 in the current quarter from $70 in the prior year quarter primarily due to the renewal of a technology licensing agreement.

Table of Contents

Gross Margin

Gross margin dollars decreased by $565 to $5,299 in the current quarter from $5,864 in the prior year period. Gross margin percentage increased by one percentage point from 49% to 50% resulting in additional margin dollars of $106 for the quarter. The gross margin percentage increase was primarily due to an increased gross margin dollar contribution from our Proximity division primarily relating to the renewal of a technology license agreement.

Operating Expenses

Total operating expenses decreased by $1,453 to $5,118 in the current quarter from $6,571 in the same period last year. This decrease is primarily due to cost cutting initiatives implemented in fiscal 2009 including a reduction in workforce in May 2008 and March 2009. Sales and marketing expenses decreased by $627 to $2,932 (28% of sales) from $3,559 (30% of sales) primarily due to decreased personnel costs of $389 following the workforce reductions. Commissions and freight decreased by $91, and $52 as a result of lower sales. Other reductions include decreased costs in shows and exhibitions and a lower allocation of management information systems (MIS) expense of $76 and $56, respectively. These decreases were partially offset by an increase in advertising expenses of $95, primarily due to increased seasonal back to school promotional placement of store displays. Research and development expenses decreased by $437 to $543 (5% of sales) from $980 (8% of sales) last year. This decrease is primarily due to lower personnel costs of $222 following the workforce reductions. In addition, consulting, outside engineering, amortization, and lower allocation of MIS expense of $64, $73, $29, and $26, respectively, also accounted for the decrease. General and administrative expenses decreased by $41 to $1,643 (15% of sales) from $1,684 (14% of sales) in the previous year. The decrease is due to a reduction in professional fees, personnel costs, travel and entertainment, maintenance and utility costs, and depreciation of $113, $66, $44, $51, and $61 respectively, offset by increased costs related to a decrease in inventory overhead allocation of $341.

In May 2008, we eliminated 10 percent of our U.S. workforce to reduce our operating expenses. These workforce reductions transitioned some U.S. based positions to our Hong Kong facility and outsourced certain others in order to increase efficiencies and bottom line profitability. The prior year quarter reflects a charge of $348 to cover the associated separation expenses.

Interest Income, net

For the quarter ended June 30, 2009, there was net interest income of $8 compared with $6 in the prior year period.

Loss on Investment

The prior year expense was the result of an investment loss of $370 resulting from the liquidation by its sponsor of a short-term fixed income fund.

Other, net

Other, net was a loss of $17 for the quarter ended June 30, 2009 compared with a loss of $41 in the same period last year. We recorded a loss of $17 on the repatriation of funds from our foreign subsidiaries in the quarter ended June 30, 2009, compared with a loss of $42 in the same period last year.

Net Income

For the quarter ended June 30, 2009, net income increased by $1,286 to a gain of $123 from a loss of $1,163 in the same period last year. The increase is primarily due to decreased operating costs of $1,453 following workforce reductions in May 2008 and March 2009, partially offset by lower sales of $1,373 resulting in a decrease in gross margin dollars of $565.

Table of Contents

We have operations in a number of foreign countries and record sales and incur expenses in various foreign currencies. As the values of these currencies fluctuate from year to year against the US dollar, our revenues, operating expenses and results of operations are impacted. For the quarter ended June 30, 2009, approximately 36% of our sales were denominated in currencies other than the US dollar. For the quarter ended June 30, 2009, our sales decreased by approximately $638 from the year over year change in exchange rates for the various currencies (primarily the euro) in which we operate, while our operating expenses decreased by approximately $211 due to the fluctuations in exchange rates. The net effect of the year over year fluctuations in exchange rates on our results of operations for the quarter ended June 30, 2009 was a decrease in net income of approximately $427.

Changes in Financial Condition

Accounts receivable increased by $2,260 to $6,617 at June 30, 2009 from $4,357 at March 31, 2009 primarily because of a seasonal increase in sales, for back to school promotions, of $2,557 during the June 2009 quarter compared to the March 2009 quarter. Inventory increased by $3,093 to $10,688 at June 30, 2009 from $7,595 at March 31, 2009 due to normal seasonal trends as we build inventory for the back to school and holiday selling seasons. Accounts payable and accrued expenses increased by $1,559.

Liquidity and Capital Resources

We had cash and cash equivalents of $8,091 at June 30, 2009 compared with cash and cash equivalents of $12,013 as of March 31, 2009. The decrease was due primarily to seasonal cash requirements to build inventory for the back to school and holiday season.

On March 31, 2009, we entered into an amendment (the Amendment) to our Revolving Credit and Security Agreement (the Credit Agreement) with PNC Bank, National Association (PNC) dated December 7, 2004, as amended.

The Amendment modifies the Credit Agreement with PNC by providing for a $8,500 revolving credit facility with sublimits of $1,500 for Letters of Credit, $500 for foreign currency borrowings and, subject to certain conditions, $5,000 for acquisitions by the Company. The Amendment also modifies the Base Rate (as defined in the Credit Agreement) upon which the Revolving Interest Rate may be determined to be the greater of the Prime Rate, the sum of the Federal Funds Open Rate plus 50 basis points or the Daily LIBOR Rate plus 100 basis points and requires that any Advance made to the Company under the Agreement be fully secured by cash, money market funds and certificates of deposit held by or deposited with PNC. The minimum Fixed Charge Coverage Ratio was amended for the quarter ended March 31, 2009 to no less than .60x to 1.0. However it reverted back to 1.25x to 1.0 for the fiscal quarter ending June 30, 2009 and each quarter thereafter.

The Credit Agreement contains certain financial covenants and restrictions on indebtedness, business combinations and other related items. The Fixed Charge Coverage Ratio was amended for the March 31, 2009 quarter end, as indicated above to ease the covenant requirement. However, at March 31, 2009 and for the June 30, 2009 quarter end, the Company was in breach of such covenant. On June 22, 2009, the bank granted a waiver of the March 31, 2009 covenant breach specified above. The Company is currently in discussion with the bank to grant a waiver for the quarter ended June 30, 2009. As of June 30, 2009, we had no borrowings under the Credit Agreement.

We rely primarily on our operating cash flow to support our operations. Over the last three fiscal years we generated cash flow from operations of $7,728. This operating cash flow is supplemented by our Credit Agreement to meet seasonal financing needs. We believe our cash flow from operations, available borrowing under our Credit Agreement and existing cash and short-term investment balances will be adequate to satisfy our cash needs for the next twelve months. The amount of credit available under the facility at any time is based upon a formula applied to our accounts receivable and inventory. As of June 30, 2009, we had credit available of

$8,091. Our credit availability and borrowings under the facility fluctuate during the year because of the seasonal nature of our business. During the year ended March 31, 2009, maximum availability and borrowings under our Credit Agreement approximated $10,721 and $0, respectively. We do not have any significant capital leases and anticipate that depreciation and amortization for fiscal 2009 will exceed planned capital expenditures.

Seasonality

The back to school season (August to mid-September) and Christmas selling season (October, November and December) are the strongest selling periods at retail for our products.

Future Income Tax Benefits

We have income tax benefits of $18,527 which can be utilized against future earnings and have provided an income tax valuation allowance of $15,527 against these tax assets. The remaining $3,000 balance is based upon our estimate of taxes that would be due and offset against our net operating loss carried forward, based upon our estimate of future earnings.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Management s Discussion and Analysis of Financial Condition and Results of Operations is based upon our consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. On an ongoing basis, we evaluate these estimates and judgments based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We annually review our financial reporting and disclosure practices and accounting policies to ensure that our financial reporting and disclosures provide accurate and transparent information relative to the current economic and business environment. There have been no changes in critical accounting policies and estimates, from those enumerated in our Annual Report on Form 10-K for the year ended March 31, 2009.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable

ITEM 4. CONTROLS AND PROCEDURES

As of June 30, 2009 (the end of the period covered by this report), our management carried out an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

In designing and evaluating our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934), management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. We believe that our disclosure controls and procedures provide such reasonable assurance.

Table of Contents

No change occurred in our internal controls concerning financial reporting during the quarter ended June 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to litigation from time to time arising in the ordinary course of its business. We do not believe that any such litigation is likely, individually or in the aggregate, to have a material adverse effect on our financial condition.

ITEM 1A. RISK FACTORS

As of the date of this filing, there have been no material changes from the risk factors enumerated in our Annual Report on Form 10-K for the year ended March 31, 2009.

ITEM 5. OTHER INFORMATION

ROLODEX® is a registered trademark of Berol Corporation, a subsidiary of Newell Rubbermaid, Inc. Seiko® is registered trademark of Seiko, Inc.

Table of Contents

ITEM 6. EXHIBITS
(a) Exhibits

31.1*	Chief Executive Officer s Certificate, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Chief Financial Officer s Certificate, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Chief Executive Officer s Certificate, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Chief Financial Officer s Certificate, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith

** Furnished herewith

Table of Contents

SIGNATURES

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

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

Date: August 13, 2009	/s/ Barry J. Lipsky **Barry J. Lipsky** **President and Chief Executive Officer** **(Duly Authorized Officer)**
Date: August 13, 2009	/s/ Frank A. Musto **Frank A. Musto** **Vice President, Chief Financial Officer, and Treasurer** **(Principal Financial and Accounting Officer)**

Table of Contents

ANNEX F

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: September 30, 2009

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______ to ______

Commission File No. 001-13198

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania	**22-2476703**
(State or other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
One Franklin Plaza, Burlington, New Jersey	**08016-4907**
(Address of Principal Executive Office)	**(Zip Code)**

(609) 386-2500

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ¨ Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer , and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company x

Indicate by check mark whether Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

NUMBER OF SHARES OF COMMON STOCK, PAR VALUE $0.01 PER SHARE

OUTSTANDING AS OF NOVEMBER 4, 2009: **8,281,133**

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009

F-2

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

(unaudited)

	September 30, 2009	March 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 8,006	$ 12,013
Accounts receivable, less allowance for doubtful accounts of $451 and $649	7,339	4,357
Inventories	11,092	7,595
Prepaids and other assets	838	702
TOTAL CURRENT ASSETS	27,275	24,667
PROPERTY AND EQUIPMENT	606	735
OTHER ASSETS:		
Deferred income tax asset	3,000	3,000
Trademark and goodwill	1,879	1,879
Software development costs	1,775	1,838
Other assets	1,132	1,300
TOTAL OTHER ASSETS	7,786	8,017
TOTAL ASSETS	$ 35,667	$ 33,419
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 8,163	$ 7,356
Current portion of long-term liabilities - Other	69	69
TOTAL CURRENT LIABILITIES	8,232	7,425
OTHER LIABILITIES	1,163	1,165
DEFERRED REVENUE	1,713	956
DEFERRED GAIN ON SALE AND LEASEBACK	2,918	3,141
SHAREHOLDERS EQUITY:		
	83	83

Common stock, $0.01 par value, authorized 50,000,000 shares, issued and outstanding, 8,277,858 and 8,273,936 shares		
Additional paid in capital	51,413	51,255
Retained earnings (deficit)	(28,949)	(29,212)
Foreign currency translation adjustment	(906)	(1,394)
TOTAL SHAREHOLDERS EQUITY	21,641	20,732
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 35,667	$ 33,419

See notes to consolidated financial statements.

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands, except for per share data)

(unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2009	2008	2009	2008
SALES	$ 11,137	$ 12,434	$ 21,757	$ 24,427
COST OF SALES	5,081	6,459	10,402	12,588
GROSS MARGIN	6,056	5,975	11,355	11,839
EXPENSES:				
Sales and marketing	3,389	3,901	6,321	7,460
Research and development	438	765	981	1,745
General and administrative	1,414	1,578	2,975	3,262
Severance				348
Acquisition related expenses	593		675	
Total operating expenses	5,834	6,244	10,952	12,815
OPERATING INCOME (LOSS)	222	(269)	403	(976)
Interest income (expense), net	(15)	16	(7)	22
Loss on Investment				(370)
Other, net	(42)	44	(59)	3
INCOME (LOSS) BEFORE INCOME TAXES	165	(209)	337	(1,321)
INCOME TAX PROVISION	25	22	74	73
NET INCOME (LOSS)	140	(231)	263	(1,394)
INCOME (LOSS) APPLICABLE TO COMMON SHAREHOLDERS	$ 140	$ (231)	$ 263	$ (1,394)
INCOME (LOSS) PER COMMON SHARE:				
Basic	$ 0.02	$ (0.03)	$ 0.03	$ (0.17)
Diluted	$ 0.02	$ (0.03)	$ 0.03	$ (0.17)
WEIGHTED AVERAGE COMMON SHARES:				
Basic	8,275	8,269	8,276	8,260
Diluted	8,613	8,341	8,501	8,352

See notes to consolidated financial statements.

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

(in thousands, except for share data)

	Common Stock			Retained Earnings /	Accumulated Other	Total
	Shares	**Amount**	**Additional Paid in Capital**	**(Deficit)**	**Comprehensive Income ***	**Shareholders Equity**
BALANCE MARCH 31, 2009	8,273,936	$ 83	$ 51,255	$ (29,212)	$ (1,394)	$ 20,732
Amortization of deferred compensation expense for shares and options issued for services			153			153
Issuance of common shares under employee stock option plan	3,922		5			5
Income for the period				263		263
Foreign currency translation adjustment					488	488
BALANCE SEPTEMBER 30, 2009 (unaudited)	8,277,858	$ 83	$ 51,413	$ (28,949)	$ (906)	$ 21,641

* Comprehensive income, i.e., net income, plus, or less, the change in foreign currency balance sheet translation adjustments, totaled $751 for the six months ended September 30, 2009.

See notes to consolidated financial statements.

F-5

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended September 30, 2009	Six Months Ended September 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME (LOSS)	$ 263	$ (1,394)
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Depreciation and amortization	1,021	1,407
Provision for losses on accounts receivable	56	58
Gain on disposal of property and equipment	22	
Non cash compensation	153	107
Source (use) of cash from change in operating assets and liabilities:		
Accounts receivable	(3,037)	(2,265)
Inventories	(3,497)	(1,482)
Prepaids and other assets	(136)	137
Accounts payable and accrued expenses	159	(781)
Deferred revenue	756	1,462
Other, net	(20)	24
NET CASH USED IN OPERATING ACTIVITIES	(4,260)	(2,727)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(97)	(103)
Software development costs	(405)	(510)
Change in other assets	162	(62)
NET CASH USED IN INVESTING ACTIVITIES	(340)	(675)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common shares	5	6
Other liabilities	102	(51)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	107	(45)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	486	(111)
DECREASE IN CASH AND CASH EQUIVALENTS	(4,007)	(3,558)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	12,013	11,824
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 8,006	$ 8,266

See notes to consolidated financial statements.

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, in thousands)

Reference is made to the financial statements included in the Company s Annual Report (Form 10-K) filed with the Securities and Exchange Commission for the year ended March 31, 2009.

The financial statements for the periods ended September 30, 2009 and 2008 are unaudited and include all adjustments necessary to a fair presentation of the results of operations for the periods then ended. All such adjustments are of a normal recurring nature. The results of the Company s operations for any interim period are not necessarily indicative of the results of the Company s operations for a full year.

OPERATIONS

The Company s operating results are reported by geographical segments. The Company s profit and loss segments are reviewed by the chief operating decision maker of the Company. The assets are reported as one segment, and reported on an aggregate basis. The profit and loss information is provided below:

Quarter ended September 30, 2009	**North America**	**Europe**	**Other International**	**Other Domestic**	**Corporate**	**Consolidated**
Sales	$ 5,894	$ 3,096	$ 1,468	$ 679	$	$ 11,137
Cost of sales	3,117	981	783	(7)	207	5,081
Gross margin	2,777	2,115	685	686	(207)	6,056
Operating expenses:						
Sales and marketing	1,611	938	218	17	605	3,389
Research and development				100	338	438
General and administrative	31	187	92		1,104	1,414
Acquisition related expenses					593	593
Total expense	1,642	1,125	310	117	2,640	5,834
Operating income (loss)	$ 1,135	$ 990	$ 375	$ 569	$ (2,847)	$ 222

Quarter ended September 30, 2008	**North America**	**Europe**	**Other International**	**Other Domestic**	**Corporate**	**Consolidated**
Sales	$ 6,786	$ 3,891	$ 1,507	$ 250	$	$ 12,434
Cost of sales	3,419	1,664	804	10	562	6,459
Gross margin	3,367	2,227	703	240	(562)	5,975
Operating expenses:						
Sales and marketing	1,803	1,037	258	87	716	3,901
Research and development				80	685	765
General and administrative	72	236	96		1,174	1,578
Total expense	1,875	1,273	354	167	2,575	6,244
Operating income (loss)	$ 1,492	$ 954	$ 349	$ 73	$ (3,137)	$ (269)

Six Months ended September 30, 2009	North America	Europe	Other International	Other Domestic	Corporate	Consolidated
Sales	$ 10,974	$ 6,783	$ 2,718	$ 1,282	$	$ 21,757
Cost of sales	5,829	2,631	1,421	20	501	10,402
Gross margin	5,145	4,152	1,297	1,262	(501)	11,355
Operating expenses:						
Sales and marketing	3,061	1,596	394	38	1,232	6,321
Research and development				198	783	981
General and administrative	64	439	171		2,301	2,975
Acquisition related expenses					675	675
Total expense	3,125	2,035	565	236	4,991	10,952
Operating income (loss)	$ 2,020	$ 2,117	$ 732	$ 1,026	$ (5,492)	$ 403

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited, in thousands)

Six Months ended September 30, 2008	North America	Europe	Other International	Other Domestic	Corporate	Consolidated
Sales	$ 13,398	$ 7,885	$ 2,758	$ 386	$	$ 24,427
Cost of sales	6,556	3,469	1,361	38	1,164	12,588
Gross margin	6,842	4,416	1,397	348	(1,164)	11,839
Operating expenses:						
Sales and marketing	3,510	1,873	489	187	1,401	7,460
Research and development				183	1,562	1,745
General and administrative	131	520	201		2,410	3,262
Severance	154				194	348
Total expense	3,795	2,393	690	370	5,567	12,815
Operating income (loss)	$ 3,047	$ 2,023	$ 707	$ (22)	$ (6,731)	$ (976)

For the three and six month periods ended September 30, 2009 and September 30, 2008 no customer accounted for more than 10% of the Company s Sales.

For the quarter ended September 30, 2009, four suppliers each accounted for more than 10% of the Company s purchases of inventory. The four suppliers individually accounted for 42%, 22%, 10% and 10% of inventory purchases. For the six months ended September 30, 2009, three suppliers each accounted for more than 10% of the Company s purchases of inventory. The three suppliers individually accounted for 37%, 27%, and 16% of inventory purchases.

For the quarter ended September 30, 2008, three suppliers each accounted for more than 10% of the Company s purchases of inventory. The three suppliers individually accounted for 36%, 26% and 13% of inventory purchases. For the six months ended September 30, 2008, three suppliers each accounted for more than 10% of the Company s purchases of inventory. The three suppliers individually accounted for 37%, 27%, and 13% of inventory purchases.

ACQUISITION PROPOSAL

On June 1, 2009 the Company announced that it has received a copy of a Schedule 13D filed with the Securities and Exchange Commission relating to a non-binding proposal by Saunders Acquisition Corporation (Saunders) to acquire all of the Company s outstanding shares of common stock not owned by Saunders for $2.35 per share in cash. Saunders is owned by current senior management of the Company who, together with certain directors and other shareholders of the Company, will contribute their Company shares to Saunders.

The Company s Board of Directors appointed a Special Committee (the Special Committee) comprised of independent members of the Company s board of directors to consider the Saunders proposal and other proposals.

On September 30, 2009, the Company reported that the Special Committee had recommended, and its Board of Directors had approved, the execution by the Company of an Agreement and Plan of Merger with Saunders. Pursuant to the Agreement and Plan of Merger, shareholders of the Company, other than Saunders, will receive cash consideration of $2.50 per share. The transaction is subject to approval by a majority of the Company s shareholders entitled to vote thereon. According to filings with the Securities and Exchange Commission made by Saunders, Saunders will own approximately 41.7% of the total outstanding votes of the Company s common stock entitled to vote on the transaction. The Company intends to prepare and file a Merger Proxy Statement with the Securities and Exchange Commission as soon as practicable, with a shareholders meeting expected to be held in January 2010. The Agreement and Plan of Merger is subject to normal closing and termination provisions for agreements of its kind. Following consummation of the merger, it is expected that the Company will delist its shares from the NYSE Amex and deregister with the Securities and Exchange Commission.

Table of Contents

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited, in thousands)

LEGAL PROCEEDINGS

The Company is subject to litigation from time to time arising in the ordinary course of its business. The Company does not believe that any such litigation is likely, individually or in the aggregate, to have a material adverse effect on the financial condition of the Company.

On June 8, 2009 a purported class action suit was filed by Capgrowth Group in the Superior Court of New Jersey naming as defendants the Company and its directors. The Complaint, filed just days after public disclosure of the Saunders Group s initial offer to purchase all the outstanding shares of the Company, alleges a breach by the defendant directors of their fiduciary duties of good faith, loyalty, fair dealing and due care to the plaintiff. On September 23, 2009, the defendants filed a Motion to Dismiss the lawsuit, stating, in substance, that the purported class action was premature and not ripe for adjudication, that pursuant to Pennsylvania law fiduciary duties are owed by directors to the Company and not directly to shareholders, and that individual shareholders such as Capgrowth Group are owed no duty in their individual capacity, and therefore cannot sue in their individual capacity. On October 9, 2009, plaintiff filed a First Amended Complaint which added a derivative count to its lawsuit. On the same date it also forwarded a demand to the board of directors of the Company to take appropriate legal action against the individual members of the Board. The defendants have withdrawn their Motion to Dismiss the initial Complaint and have filed a Motion to Dismiss the First Amended Complaint.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the Financial Accounting Standard Board (the FASB) issued authoritative guidance that eliminates the Qualified Special Purpose Entity (QSPE) concept, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies the derecognition criteria and revises how retained interests are initially measured. The guidance is effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. The Company will adopt the provisions of the guidance in fiscal 2011 and is evaluating the impact it will have to its consolidated financial statements.

In June 2009, the FASB issued the FASB Accounting Standards Codification (Codification) and the Hierarchy of Generally Accepted Accounting Principles. The Codification is the single source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied for financial statements issued for periods ending after September 15, 2009. The Codification does not change GAAP and did not have an affect on the Company s financial position, results of operations or liquidity. The adoption of this statement did not have a material impact on the Company s consolidated financial statements.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ($ in thousands)

This Quarterly Report on Form 10-Q may contain statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Those statements include statements regarding the intent and belief or current expectations of Franklin and its management team. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements. Such risks and uncertainties include, among other things, the affects of the depressed economic conditions both in the United States and Europe, the timely availability and acceptance of new electronic books and other electronic products, changes in technology, the successful integration of acquisitions, the impact of competitive electronic products, the dependence on a small number of manufacturers for purchases of inventory, the management of inventories, dependence on key licenses, titles and products, dependence on sales to a small group of customers, dependence on third party component suppliers, including those that provide Franklin-specific parts, credit risk and other risks and uncertainties that may be detailed herein, and from time-to-time, in Franklin s reports filed with the Securities and Exchange Commission. Franklin undertakes no obligation to publicly update any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

RESULTS OF OPERATIONS

Overview

For the quarter ended September 30, 2009, net income increased by $371 to income of $140 from a loss of $231 in the same period last year. Sales decreased by $1,297 from all business operations, except the Company s Proximity Technology Division (Proximity), primarily due to the slowdown in consumer spending from the continuing depressed worldwide economic situation that affected sales in all of our global retail markets. Gross margin dollars increased by $81 primarily from increased sales in our Proximity division due to the renewal of a technology license agreement. Operating expense decreased by $410 to $5,834 in the current period from $6,244 in the prior year period due to cost savings initiatives including a reduction in workforce in March 2009 partially offset by a one time legal and investment banking costs of $593 relating to acquisition proposals for the Company in the current year.

For the six months ended September 30, 2009, net income increased by $1,657 to a gain of $263 from a loss of $1,394 in the same period last year. The increase is primarily due to the successful implementation of cost saving initiatives resulting in a $2,190 or 18% reduction in operating expenses before accounting for one time charges relating to acquisition costs of $675 in the current year period and separation pay from our cost cutting initiatives of $348 in the same prior year period. Net income in the prior year period also included an investment loss of $370 resulting from the liquidation by its sponsor of a short-term fixed income fund.

Sales of monolingual products in our North American business operation have been trending downward over the past several years primarily due to indirect competition from the internet, computer and mobile applications providing consumers with alternative solutions (often free) for their spell correction and reference needs. The downward trend has been partially offset by growth in our bilingual products in the North American market. In addition, the continuing uncertainty in the financial markets has had a negative impact on consumer spending which in turn contributed to our shortfall in sales for the three and six months ended September 30, 2009. Despite these pressures, for the six months ended September 2009 we improved our gross margin by 4% compared with the prior year period and have benefited from our efforts to become more cost effective by the reduction in operating expenses, before one time charges relating to acquisition and severance costs, of 18% compared with the prior year period. The current year period operating expense included $675 of primarily legal and investment banking costs related to acquisition proposals for the Company. The prior year period reflects a charge of $348 to cover the separation expenses associated with the May 2008 workforce reductions.

Table of Contents

Three months ended September 30, 2009 compared with three months ended September 30, 2008:

Net Sales

Sales of $11,137 for the quarter ended September 30, 2009 decreased by $1,297 from sales of $12,434 for the same quarter last year. The decrease was primarily due to lower sales in the retail markets from all our business operations, with the exception of the Proximity division, as a result of the continuing worldwide economic downturn and its impact on consumer spending. The Proximity division does not sell through retail markets and therefore has not been directly impacted by the downturn in consumer spending. Sales in our Proximity division increased by $457 to $664 in the current quarter from $207 in the prior year quarter primarily due to the renewal of a technology licensing agreement. Sales in our North American business operations, our largest retail market, declined by $892 or 13%. Sales in our European business operations declined by $795 or 20% primarily due to lower sales through the retail markets and the negative impact of a weaker euro to the US dollar.

Gross Margin

Gross margin dollars increased by $81 to $6,056 in the current quarter from $5,975 in the prior year period. Gross margin percentage increased by six percentage points from 48% to 54%. The gross margin percentage increase was primarily due to an increased gross margin dollar contribution relating to the renewal of a technology license agreement in the Proximity division, a reduction in inventory overhead allocation as a result of lower costs from the cost cutting initiatives implemented during fiscal 2009, and more favorable margin product mix partially offset by the impact of currency exchange due to the strength of the U.S. dollar against the euro.

Operating Expenses

Total operating expenses decreased by $410 to $5,834 in the current quarter from $6,244 in the same period last year. This decrease is primarily due to cost cutting initiatives implemented in fiscal 2009 including a 22% reduction the global workforce in March 2009, partially offset by one time expenses of $593 of primarily legal and investment banking costs related to acquisition proposals for the Company. Sales and Marketing expenses decreased by $512 to $3,389 (30% of sales) from $3,901 (31 % of sales) in the prior year primarily due to decreased personnel costs of $250 following the workforce reductions. Commissions and freight decreased by $27 and $59 respectively, as a result of lower sales. Other sales and marketing expense reductions included shows and exhibits, travel, subscriptions, and a lower allocation of management information systems (MIS) expense of $212, $33, $30, and $69, respectively partially offset by increased advertising expenses of $137 primarily due to promotional expenses related to the first global spelling competition for non-native speakers of English (SpellEvent) held in August 2009 in cooperation with Teachers of English of Speakers of Other Languages (TESOL) and legal fees of $40. Research and development expenses decreased by $327 to $438 (4% of sales) from $765 (6% of sales) last year primarily due to lower personnel, consulting, travel, amortization, and lower allocation of MIS expense of $278, $172, $35, $29, and $30 respectively, partially offset by increased outside engineering expense of $109 and lower software capitalization of $105. General and Administrative expenses decreased by $164 to $1,414 (13% of sales) from $1,578 (13% of sales) last year, primarily due to decreases in personnel costs, depreciation, legal, taxes, and insurance of $312, $76, $88, $24, and $22 respectively, partially offset by a lower inventory overhead allocation of $258. Miscellaneous expense increased by $128 primarily due to income relating to a one time legal settlement in the prior year period.

Interest Expense, net

For the quarter ended September 30, 2009, there was net interest expense of $15 compared with interest income of $16 in the prior year period.

Table of Contents

Other, net

Other, net was a loss of $42 for the quarter ended September 30, 2009 compared with a gain of $44 in the same period last year. We recorded a loss of $44 on the repatriation of funds from our foreign subsidiaries in the quarter ended September 30, 2009, compared with a loss of $51 in the same period last year.

Net Income

For the quarter ended September 30, 2009, net income increased by $371 to a gain of $140 from a loss of $231 in the same period last year. The increase is primarily due to decreased operating costs of $410 following workforce reductions in March 2009. The current quarter net income included one time costs of $593 primarily related to legal and investment banking services resulting from the review of acquisition proposals for the Company. Excluding these costs, net income would have increased by $964 for the three months ended September 30, 2009 compared to the same period in the prior year. The renewal of a technology license agreement in our Proximity division also contributed to the increased net income.

We have operations in a number of foreign countries and record sales and incur expenses in various foreign currencies. As the values of these currencies fluctuate from year to year against the US dollar, our revenues, operating expenses and results of operations are impacted. For the quarter ended September 30, 2009, approximately 32% of our sales were denominated in currencies other than the US dollar. For the quarter ended September 30, 2009, our sales decreased by approximately $204 from the year over year change in exchange rates for the various currencies (primarily the euro) in which we operate, while our operating expenses decreased by approximately $83 due to the fluctuations in exchange rates. The net effect of the year over year fluctuations in exchange rates on our results of operations for the quarter ended September 30, 2009 was a decrease in net income of approximately $121.

Six months ended September 30, 2009 compared with six months ended September 30, 2008:

Net Sales

Sales of $21,757 for the six months ended September 30, 2009 sales decreased by $2,670 from sales of $24,427 for the same period in the prior year primarily due to lower sales in the retail markets from all our business operations, with the exception of the Proximity division, as a result of the continuing worldwide economic downturn and its impact on consumer spending. The Proximity division does not sell through retail markets and therefore has not been directly impacted by the downturn in consumer spending. Sales in our Proximity division increased by $956 to $1,233 in the current year period from $277 in the prior year period primarily due to the renewal of a technology licensing agreement. Sales in our North American business operations, our largest retail market, declined by $2,424 or 18%. Sales in our European business operations declined by $1,102 or 14% primarily due to lower sales through the retail markets and the negative impact of a weaker euro to the US dollar compared to the prior year period.

Gross Margin

Gross margin dollars decreased by $484 to $11,355 in the current six month period from $11,839 in the prior year period. Gross margin percentage increased by four percentage points from 48% to 52%. The gross margin percentage increase was primarily due to an increased gross margin dollar contribution relating to the renewal of a technology license agreement in the Proximity division, a reduction in inventory overhead allocation as a result of lower costs from the cost cutting initiatives implemented during fiscal 2009, and more favorable margin product mix partially offset by the impact of currency exchange due to the strength of the U.S. dollar against the euro.

Operating Expenses

Total operating expenses decreased by $1,863 to $10,952 in the six months ended September 30, 2009 from $12,815 in the same period last year. This decrease is primarily due to cost cutting initiatives implemented in fiscal 2009 including a reduction in workforce in May 2008 and March 2009, partially offset by one time expenses of $675 of primarily legal and investment banking costs related to acquisition proposals for the Company. Sales and marketing expenses decreased $1,139 to $6,321 (29% of sales) from $7,460 (31% of sales) primarily due to decreased personnel costs of $639 following the workforce reductions. Commissions and freight decreased by $118 and $111 respectively, as a result of lower sales. Other sales and marketing expense reductions included shows and exhibits, education and recruiting, subscriptions, travel, and allocation of MIS expenses of $288, $48, $31, $26 and $125, respectively. These reductions are partially offset by increased advertising expenses of $231 primarily due to promotional expense related to the SpellEvent in cooperation with TESOL held in August 2009. Research and development expenses decreased $764 to $981 (5% of sales) from $1,745 (7% of sales) in the same period of last year primarily due to reduced personnel costs, consulting, amortization, rent, and allocation of MIS expenses of $500, $236, $58, $22, and $56 respectively. These reductions are partially offset by lower software capitalization of $105. General and Administrative expenses decreased $287 to $2,975 (14% of sales) from $3,262 (13% of sales) primarily due to decreases in personnel, legal, consulting, depreciation, maintenance and travel costs of $440, $180, $106, $137, $57, and $53, respectively. These reductions are partially offset by increased costs related to a decrease in inventory overhead allocation of $439 and an allocation of MIS expense of $259. Miscellaneous expense increased by $107 primarily due to income relating to a one time legal settlement in the prior year period.

Interest Income, net

For the six month ended September 30, 2009 we had net interest expense of $7 compared with interest income of $22 in the same period last year, primarily due to reduced return on investments.

Loss on Investment

The prior year expense was the result of an investment loss of $370 resulting from the liquidation by its sponsor of a short-term fixed income fund.

Other, net

Other, net was a loss of $59 for the six months ended September 30, 2009 compared with a gain of $3 in the same period last year. We recorded a loss of $61 on the repatriation of funds from our foreign subsidiaries in the six months ended September 30, 2009, compared with a loss of $95 in the same period last year.

Net Income

For the six months ended September 30, 2009, net income increased by $1,657 to net income of $263 from a loss of $1,394 in the same period last year. The increase is primarily due to decreased operating costs of $1,863 following workforce reductions in May 2008 and March 2009 and the renewal of a technology license agreement in our Proximity division.

Net income in the current and prior years included one time charges. The current year net income included costs of $675 primarily related to legal and investment banking services resulting from the review of acquisition proposals for the Company. The prior year net income includes a charge of $348 to cover the separation expenses associated with the May 2008 workforce reductions. Excluding these one time charges, net income would have increased by $1,984 to $938 in the current year compared to a loss of $1,046 in the prior year.

We have operations in a number of foreign countries and record sales and incur expenses in various foreign currencies. As the values of these currencies fluctuate from year to year against the US dollar, our revenues, operating expenses and results of operations are impacted. For the six months ended September 30, 2009, approximately 34% of our sales were denominated in currencies other than the US dollar. For the six months ended September 30, 2009, our sales decreased by approximately $841 from the year over year change in exchange rates for the various currencies (primarily the euro) in which we operate, while our operating expense benefited by approximately $294 due to the fluctuations in exchange rates. The net effect of the year over year fluctuations in exchange rates on our results of operations for the six months ended September 30, 2009 was a decrease in income of approximately $547.

We enter into forward foreign exchange contracts from time to time to offset the impact of changes in the value of the euro on our revenue, operating expense and net income and to protect the cash flow from our existing assets valued in foreign currency. Although economic gains or losses on these contracts are generally offset by the gains or losses on underlying transactions, we seek to minimize our foreign currency exposure on a macro basis rather than at the transactional level. We only enter into contracts with major financial institutions that have an A (or equivalent) credit rating. All outstanding foreign exchange contracts are marked-to market at the end of each accounting period with unrealized gains and losses included in results of operations.

As of September 30, 2009 we had no outstanding foreign exchange contracts.

Changes in Financial Condition

Accounts receivable increased by $2,982 to $7,339 at September 30, 2009 from $4,357 at March 31, 2009 primarily because of a seasonal increase in sales, for back to school promotions, of $3,074 during the September 2009 quarter compared to the March 2009 quarter. Inventory increased by $3,497 to $11,092 at September 30, 2009 from $7,595 at March 31, 2009 due to normal seasonal trends as we build inventory for the back to school and holiday selling seasons. Accounts payable and accrued expenses increased by $807.

Liquidity and Capital Resources

We had cash and cash equivalents of $8,006 at September 30, 2009 compared with cash and cash equivalents of $12,013 as of March 31, 2009. The decrease was due primarily to seasonal cash requirements to build inventory for the back to school and holiday season.

On March 31, 2009, we entered into an amendment (the Amendment) to our Revolving Credit and Security Agreement (the Credit Agreement) with PNC Bank, National Association (PNC) dated December 7, 2004, as amended.

The Amendment modifies the Credit Agreement with PNC by providing for a $8,500 revolving credit facility with sublimits of $1,500 for Letters of Credit, $500 for foreign currency borrowings and, subject to certain conditions, $5,000 for acquisitions by the Company. The Amendment also modifies the Base Rate (as defined in the Credit Agreement) upon which the Revolving Interest Rate may be determined to be the greater of the Prime Rate, the sum of the Federal Funds Open Rate plus 50 basis points or the Daily LIBOR Rate plus 100 basis points and requires that any Advance made to the Company under the Agreement be fully secured by cash, money market funds and certificates of deposit held by or deposited with PNC. The minimum Fixed Charge Coverage Ratio was amended for the quarter ended March 31, 2009 to no less than .60x to 1.0. However it reverted back to 1.25x to 1.0 for the fiscal quarter ending June 30, 2009 and each quarter thereafter.

The Credit Agreement contains certain financial covenants and restrictions on indebtedness, business combinations and other related items. The Fixed Charge Coverage Ratio was amended for the March 31, 2009 quarter end as indicated above to ease the covenant requirement. However, at June 30, 2009 and for the September 30, 2009 quarter end, the Company was in breach of such covenant. On August 19, 2009, PNC granted a waiver of the June 30, 2009 covenant breach specified above. The Company is currently in discussion with PNC to grant a waiver for the quarter ended September 30, 2009. As of September 30, 2009, we had no borrowings under the Credit Agreement.

We rely primarily on our operating cash flow to support our operations. Over the last three fiscal years we generated cash flow from operations of $7,728. This operating cash flow is supplemented by our Credit Agreement to meet seasonal financing needs. We believe our cash flow from operations, available borrowing

Table of Contents

under our Credit Agreement (assuming a default waiver described above is obtained) and existing cash and short-term investment balances will be adequate to satisfy our cash needs for the next twelve months. The amount of credit available under the Credit Agreement at any time is based upon a formula applied to our accounts receivable and inventory. As of September 30, 2009, we had credit available of $8,006 (assuming a default waiver described above is obtained). Our credit availability and borrowings under the credit agreement fluctuate during the year because of the seasonal nature of our business. During the twelve months ended September 30, 2009, the maximum availability under our Credit Agreement approximated $10,400. However, we did not utilize the Credit Agreement during the twelve months ended September 30, 2009. We do not have any significant capital leases and anticipate that depreciation and amortization for fiscal 2010 will exceed planned capital expenditures.

Seasonality

The back to school season (August to mid-September) and Christmas selling season (October, November and December) are the strongest selling periods at retail for our products.

Future Income Tax Benefits

We have income tax benefits of $18,527 which can be utilized against future earnings and have provided an income tax valuation allowance of $15,527 against these tax assets. The remaining $3,000 balance is based upon our estimate of taxes that would be due and offset against our net operating loss carried forward, based upon our estimate of future earnings.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Management s Discussion and Analysis of Financial Condition and Results of Operations is based upon our consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. On an ongoing basis, we evaluate these estimates and judgments based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We annually review our financial reporting and disclosure practices and accounting policies to ensure that our financial reporting and disclosures provide accurate and transparent information relative to the current economic and business environment. There have been no changes in critical accounting policies and estimates from those enumerated in our Annual Report on Form 10-K for the year ended March 31, 2009.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable

ITEM 4. CONTROLS AND PROCEDURES

As of September 30, 2009 (the end of the period covered by this report), our management carried out an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Table of Contents

In designing and evaluating our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934), management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. We believe that our disclosure controls and procedures provide such reasonable assurance.

No change occurred in our internal controls concerning financial reporting during the quarter ended September 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to litigation from time to time arising in the ordinary course of its business. We do not believe that any such litigation is likely, individually or in the aggregate, to have a material adverse effect on our financial condition.

On June 8, 2009 a purported class action suit was filed by Capgrowth Group in the Superior Court of New Jersey naming as defendants the Company and its directors. The Complaint, filed just days after public disclosure of the Saunders Group s initial offer to purchase all the outstanding shares of the Company, alleges a breach by the defendant directors of their fiduciary duties of good faith, loyalty, fair dealing and due care to the plaintiff. On September 23, 2009, the defendants filed a Motion to Dismiss the lawsuit, stating, in substance, that the purported class action was premature and not ripe for adjudication, that pursuant to Pennsylvania law fiduciary duties are owed by directors to the Company and not directly to shareholders, and that individual shareholders such as Capgrowth Group are owed no duty in their individual capacity, and therefore cannot sue in their individual capacity. On October 9, 2009, plaintiff filed a First Amended Complaint which added a derivative count to its lawsuit. On the same date it also forwarded a demand to the board of directors of the Company to take appropriate legal action against the individual members of the Board. The defendants have withdrawn their Motion to Dismiss the initial Complaint and have filed a Motion to Dismiss the First Amended Complaint.

ITEM 1A. RISK FACTORS

As of the date of this filing, there have been no material changes from the risk factors enumerated in our Annual Report on Form 10-K for the year ended March 31, 2009.

Table of Contents

ITEM 6. EXHIBITS
(a) Exhibits

31.1*	Chief Executive Officer s Certificate, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Chief Financial Officer s Certificate, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Chief Executive Officer s Certificate, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Chief Financial Officer s Certificate, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith
** Furnished herewith

Table of Contents

SIGNATURES

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

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

Date: November 13, 2009

/s/ Barry J. Lipsky
Barry J. Lipsky
President and Chief Executive Officer
(Duly Authorized Officer)

Date: November 13, 2009

/s/ Frank A. Musto
Frank A. Musto
Vice President,
Chief Financial Officer, and Treasurer
(Principal Financial and Accounting Officer)

F-18

Table of Contents

PLEASE MARK VOTES AS IN THIS EXAMPLE

REVOCABLE PROXY

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

With- hold For For All Except

PROXY FOR SPECIAL MEETING OF SHAREHOLDERS _____________, 2010 This Proxy is Solicited On Behalf of the Board of Directors

The undersigned hereby appoints EDWARD H. COHEN, ROBERT L. KOHL and DAVID S. KRAVITZ, and each of them, attorneys and proxies, with power of substitution and revocation, to vote, as designated below, all shares of stock which the undersigned is entitled to vote, with all powers which the undersigned would possess if personally present, at the Special Meeting of Shareholders (including all adjournments thereof) of FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED to be held on _______, ________ 2010 at 10:00 A.M. (local time) at the offices of Katten Muchin Rosenman LLP, 575 Madison Avenue, New York, New York 10022.

The Board of Directors recommends a vote FOR proposals 1 and 2.

1. To adopt the Agreement and Plan of Merger, dated as of September 30, 2009, by and between Saunders Acquisition Corporation and Franklin Electronic Publishers,

Incorporated and the related plan of merger, as such agreement may be amended.

For Against Abstain

2. To approve a proposal to adjourn the Special Meeting, if necessary, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement and the related plan of merger.

The proxy is authorized to transact such other business as may properly come before the meeting.

This proxy, when properly executed, will be voted in the manner directed herein by the undersigned shareholder. If no direction is given, this proxy will be voted FOR items 1 and 2 and in the discretion of said proxy on any other matter which may come before the meeting or any adjournments thereof.

NOTE: When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee, custodian, guardian or corporate officer, please give your full title as such. If a corporation, please sign full corporate name by authorized officer. If a partnership, please sign in partnership name by authorized person.

Please be sure to date and sign Date this proxy card in the box below.

Sign above

Detach above card, sign, date and mail in postage paid envelope provided. ? FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

PLEASE MARK, DATE, SIGN AND RETURN THE PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE.

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