FRANKLIN ELECTRONIC PUBLISHERS INC
Form 10-K
June 28, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

Annual report pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the fiscal year ended March 31, 2001

Commission File Number 0-14841

FRANKLIN ELECTRONIC PUBLISHERS,
INCORPORATED
(Exact name of the 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 offices)

(609) 386-2500
(Registrant's telephone number)

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

None

Securities registered pursuant Section 12(g) of the Exchange Act:

Common Stock, no par value

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

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

As of June 21, 2001, approximately 7,949,000 shares of common stock of the

registrant were outstanding and the aggregate market value of common stock held by non-affiliates was approximately $17,100,000.

The registrant's Proxy Statement for its 2001 annual meeting of shareholders is hereby incorporated by reference into Part III of this Form 10-K.

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FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

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THE SECURITIES AND EXCHANGE COMMISSION
YEAR ENDED MARCH 31, 2001

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Except for the historical information contained herein, the matters discussed throughout this report, including, but not limited to, those that are stated as Franklin's belief or expectation or preceded by the word "should" are forward looking statements that involve risks to and uncertainties in Franklin's business, including, among other things, the timely availability and acceptance of new electronic books, organizers, and other electronic products, changes in technology, the impact of competitive electronic products, the management of inventories, Franklin's dependence on third party component suppliers and manufacturers, including those that provide Franklin-specific parts, and other risks and uncertainties that may be detailed from time to time in Franklin's reports filed with the Securities and Exchange Commission.

PART I

ITEM 1. BUSINESS

Franklin Electronic Publishers, Incorporated ("Franklin" or the "Company") designs and develops hand-held electronic information products, such as electronic books (sometimes known as eBooks) and electronic organizers.

The Company believes it is the world's largest designer, developer and publisher of hand-held electronic books, having sold more than twenty-five million units since 1986. The Company's electronic books are battery-powered devices that incorporate the text of a reference work, general literature or databases and permit the user to read selected portions on a display screen. The Company owns or has licenses to publish in electronic format more than two hundred titles, including monolingual and bilingual dictionaries (such as Merriam-Webster's Tenth Collegiate Dictionary), the Bible, encyclopedias (such as the Concise Columbia Encyclopedia), entertainment-oriented publications, educational publications and medical publications (such as the Physicians' Desk Reference(R)).

The Company marketed its first electronic book, the Spelling Ace(R), in 1986. The Company believes that the Spelling Ace was one of the first electronic books marketed in the United States. Beginning in 1987, Franklin began marketing increasingly sophisticated electronic versions of thesauruses and dictionaries and, in 1989, the Holy Bible.

In 1996, the Company acquired certain assets of the ROLODEX(R) Electronics product line and the associated trademark license. Under the license, the Company acquired the right to build and market databanks and organizers under the ROLODEX(R) Electronics mark.

In 1999, the Company introduced at retail an eBook produced by a third party for downloading content from the Internet. The product introduction initiated the Company's strategy of providing content for downloading from the Internet for hand-held products. In 2001, the Company introduced at retail its eBookMan product, a handheld electronic multimedia eBook device ("eBookMan") for downloading multimedia content from the Internet.

The Company was incorporated in 1983 in the Commonwealth of Pennsylvania as the successor to a business commenced in 1981. The Company's principal executive offices are located at One Franklin Plaza, Burlington, New Jersey 08016-4907, and its telephone number is (609) 386-2500.

COMPETITIVE ADVANTAGES

The Company believes that it has the following competitive advantages:

o Efficient and Cost-Effective Manufacturing Process. Franklin controls the entire manufacturing process of its products, from design to sale, but does not own actual manufacturing facilities. This "virtual manufacturing" model enables the Company to produce its products in the most cost-effective manner by allowing the Company to outsource the manufacturing and assembly functions to third parties which meet the Company's cost and quality specifications. In this way, the Company maintains a high degree of flexibility and adaptability in its product sourcing operations.

o Strong Share in Electronic Books. Franklin is the preeminent company in the hand-held electronic reference market, with leading positions in the United States and certain markets internationally. The Company believes it has dominant market share in North America, Europe and Australia, as well as a major presence in the Middle East. Over the past fourteen years, Franklin has sold twenty-five million units worldwide and currently markets over 200 eBooks globally.

o Breadth and Strength of Distribution. The Company distributes its products through 45,000 retail outlets in more than fifty countries. The Company also uses direct channels to serve multiple markets, such as the professional, educational and customized application markets. In the professional market, Franklin has achieved considerable success with its electronic format medical publications. In the educational market, the Company's electronic books are used in schools throughout the United States. Due to the success of its electronic Bible, the Company has also achieved substantial sales in the religious market, with Franklin products currently distributed through Christian-affiliated bookstores.

o Technological Leadership in eBooks. Franklin has significant expertise in providing high quality content and functionality through cost-effective hardware designs of electronic information products. The Company designs and has manufactured for its use proprietary microprocessors. The Company's products combine sophisticated technology with a user-friendly interface designed for convenient and rapid retrieval of data. Franklin's ability to compress data and to design systems that permit quick and intelligent information retrieval enables it to offer compact products with high functionality. For example, the Company stores the almost three thousand page Physicians' Desk Reference, which fills up twenty megabytes of memory space, into the memory space of only five megabytes which also includes sophisticated search and retrieval functionality. The Company has been able to manufacture higher performance products at lower cost due in part to declining prices of ROM chips. The Company's vertically integrated research and development effort, devoted to developing both the hardware and software for its products, also enables it quickly to utilize cost-minimizing technologies. As a result, the cost of Franklin's products to consumers has decreased over the years to prices approaching those of print versions of reference publications, offering consumers added value at attractive price points.

o Long-standing Relationships and Licenses with Many Top Publishers. The Company has electronic rights to over 200 titles, including several versions of English and bilingual dictionaries, Bibles, and the Physicians' Desk Reference. The Company obtains its licenses from a variety of well-established publishers such as Merriam-Webster, Harper/Collins, Vivendi Universal and Bertelsmann. While many of these licenses are exclusive, all are supported by long-standing relationships with the publishers, providing Franklin with a significant

competitive advantage.

BUSINESS STRATEGIES

Franklin was the first, and strives to be the best, in electronic books. The Company's strategy to fulfill that mission is to leverage its leading market position by exploiting the following opportunities:

o Use of the Internet to Distribute Content to Handhelds. The Company publishes certain reference works on its web page (franklin.com) in electronic form for downloading to multiple handheld platforms, including to those using the Palm OS operating system and Microsoft Pocket PC/Windows CE operating system as well as to the Company's own handheld electronic books. In this way, the Company expects to leverage its expertise in refining reference data with its competitive advantages in developing and distributing hand-held products to reach a broader installed base. The Company has developed an Internet-enabled hardware platform to provide for portable use of content delivered from the Company's website.

o Consumer Driven Product Development and Marketing. While the Company has built strong distribution for its major products, it believes that further opportunities lie in its ability to take a more marketing driven approach to product development. The Company believes a better understanding of its customers will allow it to boost sales, lower costs, accelerate throughput at retail and lead to successful new product introductions. The Company is investigating ways to better market its products for children and, as a consequence, to expand its offerings in this area.

o Continuing Upgrade of Core Products. The Company's core product line continues to represent the major portion of its revenue. Dictionaries, spell correctors and Bibles have been the Company's mainstream consumer electronics products. From time to time, the Company has developed upgraded and enhanced versions of its core products. The Company intends to continue to upgrade and enhance its core products.

o Investment in Marketing. The Company believes that a major opportunity lies in broadening consumer awareness of the hand-held eBook category in order to generate mass market interest in the Company's products. To date, the Company has engaged in limited advertising on the national or local levels. The Company has, however, enjoyed success with its limited advertising campaigns.

o Growth in Selected International Markets. The Company has had success in selling its products directly through wholly-owned, local subsidiaries in selected international markets, and through distributors in other markets. Because of the slowed growth in some international markets over the past two fiscal years, the Company is concentrating its sales efforts in key markets. The Company anticipates that its international sales will continue to provide a significant portion of its revenues.

o Exploitation of OEM and Licensing Opportunities. OEM (or "Original Equipment Manufacturer") opportunities are business agreements pursuant to which the Company develops products for resale by its partners. The Company has such agreements in the medical publishing and international markets and will seek to broaden its activities to other vertical markets. The Company believes its OEM business can be expanded as the Company upgrades existing and develops new open system platforms, such as its eBookMan product line. The Company licenses its technology to preeminent companies such as Adobe Systems, Inc. and Palm, Inc. The Company believes that it is the largest supplier of Springboard modules for

the Visor line of handheld products utilizing the Palm OS operating system that is sold by Handspring, Inc.

RISK FACTORS

The Company believes that the most significant risks to its business involve those set forth below.

o Significant demand for eBookMan products must develop. The Company has expended significant resources in connection with the development and introduction of its new eBookMan product line, which commenced shipping in the fourth quarter of fiscal 2001. To date, consumer demand for eBookMan products has been adversely affected by late deliveries to retailers, coupled with the recent decline in consumer demand for all hand-held electronic products. If significant consumer demand for

eBookMan products does not develop, the Company might be required to liquidate inventory and, to the extent the technology used in eBookMan is not usable in the Company's other products, might be required to take a charge for a portion of the capitalized research and development costs relating to the eBookMan product line. As of March 31, 2001, the Company had inventory of eBookMan products of approximately $7.2 million and had capitalized a net aggregate of approximately $2 million of research and development costs relating to the eBookMan product line. There can be no assurance that significant demand for eBookMan products will develop, or that if such demand does develop, that it can be sustained.

o Dependence on New Products and Titles. The Company depends to a certain extent on the introduction of successful new products and titles to generate sales growth and replace declining revenues from certain older products and titles. The Company currently has several new products and titles under development; however, significant development efforts for a number of the Company's proposed new products and titles will be required prior to their commercialization. A significant delay in the introduction of a new product or title could have a material adverse effect on the ultimate success of the product or title. In addition, if revenues from new products and titles fail to replace declining revenues from certain existing products and titles, the Company's operating results and growth could be adversely affected. There can be no assurance that new products and titles currently under development will be introduced on schedule, that they will generate significant revenues, or that the Company will be able to introduce additional new products and titles in the future.

o Inventory Management. The Company's lead times are necessarily long because of the custom nature of certain components and because most of its components are manufactured, and its platforms are assembled, in Asia. Accordingly, production and procurement planning are critically related to the Company's anticipated sales volume. Any significant deviation from projected future sales could result in material shortages or surpluses of inventory. Shortages could cause the Company's distribution base to shrink as customers turn to the Company's competitors. Inventory surpluses could cause cash flow and other financial problems, which might cause the Company to liquidate inventory. There can be no assurance that the Company's forecasts of demand for its products will be accurate. Inaccurate forecasts, or unsuccessful efforts by the Company to cope with surpluses or shortages, could have a material adverse effect on the Company's business.

o Changes in Technology. In general, the computer industry, both with

respect to software and hardware, is subject to rapidly changing technology. Accordingly, the technology underlying the Company's products may similarly be subject to change. The introduction of products embodying new technologies and the emergence of new industry standards could exert price pressure on the Company's existing products or render such products unmarketable or obsolete. The Company's ability to anticipate changes in technology and industry standards and to develop and introduce new and enhanced products, as well as additional applications for existing products, in each case on a timely and cost-effective basis, will be a critical factor in the Company's ability to grow and remain competitive. There can be no assurance that technological changes will not materially adversely affect the Company's business.

o Competition. The consumer electronics and handheld product markets are highly competitive and characterized by rapid technological advances and the regular introduction of new products or enhancements of existing products. The Company believes it faces various degrees of competition at different price points in these markets. Competitive factors include product quality and reliability, price, performance, marketing and distribution capability, service and reputation. There can be no assurance that companies currently in the consumer electronics or handheld product markets will not enter the markets in which the Company currently markets its products. There can be no assurance that other companies, currently in the consumer electronics industry, will not enter the electronic book market. Many of such companies have greater capital, research and development, marketing and distribution

resources than the Company. If new competitors emerge or the existing market becomes more competitive, the Company could experience significant pressure on prices and margins.

o Dependence on Key Suppliers. Certain integrated circuits essential to the functioning of the Company's products are manufactured by a relatively small number of overseas suppliers. Missed, late or erratic deliveries of custom IC-ROMs and other parts could materially adversely impact the timing of new product deliveries as well as the Company's ability to meet demand for existing products. If any one of the integrated circuit suppliers were unable to meet its commitments to the Company on a timely basis, such failure could have a material adverse effect on the Company's business.

o Intellectual Property Rights. The Company owns utility and design patents in the United States and elsewhere on its electronic books. There can be no assurance (i) that the claims allowed under any patents will be sufficiently broad to protect the Company's technology, (ii) that the patents issued to the Company will not be challenged, invalidated or circumvented or (iii) as to the degree or adequacy of protection any patents or patent applications will afford. The Company also claims proprietary rights in various technologies, know-how, trade secrets and trademarks which relate to its principal products and operations, none of which rights is the subject of patents or patent applications in any jurisdiction. There can be no assurance as to the degree of protection these rights may or will afford the Company.

o International Sales and Currency Fluctuations. The Company expects that international sales will constitute a material portion of the Company's business. The Company's international business is subject to various risks common to international activities, including political and economic instability and the need to comply with export laws, tariff regulations and regulatory requirements. There can be no assurance that political or economic instability in any given country or countries will not have an adverse impact on the Company's overall operations. Because approximately 30% of the Company's sales

are made in currencies other than the U.S. dollar, the Company is subject to the risk of fluctuation in currency values from period to period. The risk associated with fluctuations in currency values can be expected to increase to the extent the Company expands its international operations.

PRODUCTS

Electronic Books

Franklin currently markets more than 200 electronic books in various categories, including thesauruses, dictionaries, bilingual dictionaries, the Bible, and educational and medical publications. Different versions of the Company's electronic reference products use different databases and provide various levels of functionality.

Dictionaries

Franklin's electronic spelling products (the "Spelling Ace(R)" line) operate as phonetic spelling error detectors and correctors, puzzle solvers, word list builders and word finders. These products permit the user to obtain the correct spelling of a word that the user does not know how to spell correctly. For example, if the user phonetically types in "krokodyl," the book will display a list of seven words including, as the first choice, "crocodile." The Company markets various versions in the Spelling Ace line incorporating different databases. The most popular version is based on a list of over 80,000 American English words licensed to the Company by Merriam-Webster.

The Company's top-of-the-line electronic dictionary is Merriam-Webster's Collegiate Dictionary which is sold for use in the BOOKMAN and eBookMan lines of products and which contains over 195,000 words and their definitions, parts of speech, hyphenation points and different word forms

(inflections). All of the Company's electronic dictionaries provide phonetic spelling correction and many provide thesaurus features as well. For example, if a user enters the word "baffled," the thesaurus will display eleven different synonyms, including "frustrated," "disappointed" and "foiled."

The Company markets versions of its dictionaries that include speech synthesis circuitry (based on text to speech technology in which algorithms are used to convert text into sound) which allows the Company's products to pronounce, in computer generated speech, relevant words contained in the various databases. The Company also has developed and sold audible products that use digitally recorded and compressed speech, which sounds more like a human voice.

The Company's line of products also includes bilingual dictionaries. Each contains more than 200,000 words in both English and either Spanish, French, German, Arabic or Hebrew, and each provides complete translations, definitions, verb conjugations and a gender guide, and plays a variety of language learning games to help teach the language. The Spanish/English dictionary is marketed in versions with and without speech synthesis for both Spanish and English words. Each of the other bilingual dictionaries is equipped with speech synthesis for the English words. The Company currently markets a French/German dictionary and bilingual dictionaries for several other languages, including other language pairs that do not include English, such as German/Italian and French/Spanish.

Franklin has a speaking dictionary designed to facilitate use by blind, visually impaired or learning disabled individuals, as well as others with special needs. This dictionary incorporates speech technology which pronounces

every word at user adjustable volumes and speeds. In addition, this dictionary is equipped with full audio feedback, which allows every key on the keyboard to speak its letter or function. Other features include a keyboard with high-contrast lettering and raised locator dots, a large high-contrast screen with adjustable fonts and headphones.

Children's Products

Since 1990, the Company has successfully sold children's versions of its reference products, such as a children's dictionary based on the word list from Webster's Elementary Dictionary. In 1997, the Company introduced a new line of children's products which includes the Homework Wiz electronic dictionary with a text-to-speech voice synthesizer enabling the product to speak words and definitions.

The Bible

Franklin's electronic Holy Bible is a hand-held edition of the entire text of the Bible, which allows for retrieval of text by searches based on single words, word groups or synonyms. For example, a search for the words "valley" and "shadow" will retrieve the Twenty-third Psalm. Because of its built-in ability to conduct full-text word searches, the Franklin Bible is a fully automated concordance. The Company sells the Bible on its BOOKMAN platform and on cards designed for use with its BOOKMAN platform. The Company sells both the King James and the New International versions of the Bible, as well as a children's version of the Bible, and markets a Bible question-and-answer card. The Company also sells a speaking version of its King James Bible.

Medical Publications

The Company develops and markets a broad range of titles for health care professionals for use on a variety of handheld platforms.

The Pocket PDR(TM) Medical Book System comes with two card slots and a broad range of titles. The platform uses Franklin's proprietary microprocessor and has an 8-line screen which is particularly useful when accessing and viewing drug information monographs. Available book cards for the Pocket PDR(TM) Medical Book System include the Physicians' Desk Reference, The Merck Manual, The Washington Manual of Medical Therapeutics, The Medical Letter Handbook of Adverse Drug Interactions, Harrison's Prinicples of Internal Medicine Companion Handbook, Stedman's Medical Dictionary and Griffith's Five-Minute Clinical Consult.

In the 2001 fiscal year, the Company launched an eBookMan device targeted towards the healthcare community which is bundled with two leading drug references on multimedia memory cards (MMC): the 2001 Physicians' Desk Reference for physicians distributed by Medical Economics, a division of Thomson Healthcare, and the 2001 American Hospital Formulary Service distributed by the American Society of Health-System Pharmacists to hospital-based pharmacists.

The Company's development of certain medical titles for use in a variety of handheld platforms continued during the 2001 fiscal year. Most titles available for the Medical Book System were developed for the Palm OS operating system, both as downloads and as Springboard modules for the Visor platform, as well as for the Microsoft Windows CE operating systems. The titles are available for download at franklin.com.

Entertainment Titles

The Company sells a Crossword Puzzle Solver electronic book which provides correct spelling for over 250,000 words and phrases from Merriam-Webster's Official Crossword Puzzle Dictionary for use by word puzzle enthusiasts. The Company is investigating making certain entertainment titles available for downloading from its website into a variety of handheld platforms and currently offers a series of downloadable crossword puzzles for Palm OS compatible devices.

International Titles

The Company has developed and produced British English versions of its American English electronic reference products for international markets, particularly the United Kingdom and Australia. The Company has monolingual electronic reference products for the French market and eBook products for the German-speaking market. The Company has omnibus agreements for publishing electronic reference products with two major European publishers, Bertelsmann and Vivendi Universal, under which Franklin has developed titles in hand-held electronic platforms and ROM cards. Vivendi Universal publishes dictionaries, thesauruses, encyclopedias and other works under the following well known French trademarks: Le Robert, Larousse, Nathan, Dalloz, Masson and Bouquins.

Through a Company subsidiary, Proximity Technology, Inc., the Company designs linguistic software that performs spelling error detection and correction, thesaurus and dictionary functions in conjunction with databases of words in 20 languages and dialects. The Company licenses this software for use in computers of all sizes, as well as on the Internet.

Electronic Organizers

In 1997, the Company began to sell a line of organizers and databanks under the ROLODEX(R) trademark which had been licensed by the Company late in 1996. Since acquiring the ROLODEX(R) Electronics product line, the Company has updated and improved both low priced databanks, that allow users to store and retrieve names and telephone numbers, and higher priced and more advanced personal organizers, that can interface with desktop PCs.

Internet Enabled Content and Devices

The Company offers versions of certain reference works, including the Physicians' Desk Reference and the Bible, from its website, franklin.com, for downloading to handheld devices using the Palm OS operating system and Microsoft Windows CE operating system. The three eBookMan models--EBM-900 (8MB), EBM-901 (8MB with backlit display) and EBM-911 (16MB with backlit display)--feature large 240x200 pixel displays that display 87% more information than today's most popular handhelds. Users can adjust the font size or switch the display to landscape mode for easy reading. All three models use natural handwriting recognition and include a Franklin eBook Reader, an audio book player, an MP3 compatible music player, an address book, a date book, a to-do book and a memo book. Available for $129.95, $179.95 and $229.95 respectively, each eBookMan model is equipped with a USB port for connection to a PC (an optional serial connection is also available) and features optional memory expansion through industry standard multimedia memory cards.

Winner of the inaugural Technology Award from the International eBook Award Foundation, eBookMan synchronizes with Microsoft Outlook using Intellisync software from PUMATECH and plays thousands of audio books available from Audible.com. Users of other popular desktop PIMS, such as Lotus Organizer 5.0

and ACT! 2000, will be able to download optional Intellisync connectors from franklin.com.

eBookMan features Franklin's ground-breaking "open but secure" architecture that protects valuable application programs and digital content. Developers and publishers now have the world's first open platform to create new applications and content in an environment protective of both copyright and revenue.

A large number of software developers have signed up for Franklin's Software Developers Kit to take advantage of the secure platform to produce and distribute games, productivity solutions and other applications. Third party eBookMan applications are currently available at franklin.com. Book and periodical publishers are also working with Franklin to leverage eBookMan technology to distribute their valuable copyright-protected digital content.

RESEARCH AND DEVELOPMENT AND CONTENT ACQUISITION

The Company has a group of approximately forty-five persons that perform research and development relating to new electronic products as well as improvements to existing products. The Company focuses its hardware development efforts on creating new platforms.

The Company maintains a full-time internal development group of hardware and software engineers dedicated to the critical function of developing proprietary microprocessors and VLSIs that integrate the Company's proprietary microprocessor or general purpose microprocessors and custom design circuits for electronic products. Through this extensive effort, the Company is able to reduce the cost of components for its platforms and cards on an ongoing basis. The Company regularly engages in programs to redesign its platforms and to develop new VLSIs for its products. The Company has also contracted for software development work in Russia, India and the Far East.

MANUFACTURING

The Company arranges for the assembly of its products by placing purchase orders with established third-party manufacturers in China, Malaysia and Thailand. The Company believes that it could locate alternate manufacturers for its products if any of its current manufacturers is unable, for any reason, to meet the Company's needs.

The Company designs certain custom integrated circuits, which are manufactured by third parties for use in the Company's products. Franklin also creates the mechanical, electronic and product design for its hardware platforms and designs and owns the tools used in the manufacture of its products. The Company's electronic products are based on the Company's proprietary microprocessor or general purpose microprocessors and custom-designed ROM chips and general purpose static random access memory chips. The Company designs VLSIs that integrate its proprietary or general purpose microprocessors and custom-designed circuits in order to reduce the cost of the components in its platform. In order to minimize the effect of any supplier failing to meet the Company's needs, the Company generally attempts to source these parts from multiple manufacturers. In those cases where the Company chooses to use a single source for economic reasons, alternative suppliers are generally available.

The Company utilizes its office in Hong Kong to facilitate component procurement and manufacturing. On-site quality control inspection of electronic products is conducted by its employees in China, Malaysia and Thailand. The

Company's products are generally shipped at the Company's expense to its facility in New Jersey, where the Company maintains inspection, quality control, packaging, warehousing and repair operations for distribution in the United States, and to similar facilities in Europe and elsewhere for its foreign operations.

SALES AND MARKETING

Franklin's products are marketed domestically through the Company's own sales and marketing force and through independent sales representative organizations, which are supervised by the Company's internal sales department.

Consumer Sales

Franklin's products are sold in over 30,000 retail establishments in the United States. These are comprised of mass market retailers, discount chains, bookstores, independent electronic stores, department stores and catalog companies such as The Sharper Image. Consumers can also order products directly from Franklin by calling 1-800-BOOKMAN or by visiting the Company's website at franklin.com. The Company sells through several large retail chains, including Radio Shack, Staples, Office Depot, Target and Best Buy.

Franklin commonly participates in and provides financial assistance for its retailers' promotional efforts, such as in-store displays, catalog and general newspaper advertisements. The Company promotes its products with advertisements in magazines and newspapers. The Company also promotes its products at trade shows, including the Consumer Electronics Show, and advertises in trade magazines.

International Sales

The Company sells its products worldwide through its wholly-owned, local subsidiaries and a network of independent distributors. Franklin has subsidiaries in the United Kingdom, France, Canada, Germany, the Benelux countries, Mexico and Australia, that market and distribute the Company's products, including those specifically developed for these markets.

OEM Markets

The Company produces custom products for third parties. The Company has developed custom products including the Larousse Copiloto for a Spanish print encyclopedia publisher as well as a speaking

version of the alMawrid, an Arabic-English bilingual dictionary for sale in the Middle East. The Company continues to pursue opportunities for custom versions of its products.

PATENTS, TRADEMARKS AND COPYRIGHTS

The Company owns more than twenty United States utility and design patents on its electronic reference products and a number of international patents on its products. The Company actively pursues the acquisition and enforcement of patent rights and, in furtherance thereof, maintains an ongoing program to apply for and prosecute patent applications and to enforce its rights in patents that issue therefrom.

Franklin owns certain trademark rights, including "Franklin(R)", "BOOKMAN(R)", "eBookMan", "Spelling Ace(R)", "Wordmaster(R)", "Next Century(R)"

and "Language Master" and has an exclusive license for the mark ROLODEX(R) Electronics in the United States and various foreign countries.

Copyrights to certain word lists incorporated in the Company's electronic books are the property of the Company's licensors. The Company owns copyrights in certain programs and algorithms used in, as well as the compilations of, its electronic books.

COMPETITION

The Company is the market leader for hand-held electronic books. The Company's main domestic competitor in the electronic book category is Seiko Instruments USA Inc. ("Seiko"), which markets spelling correctors, thesauruses and dictionaries. The Company faces various degrees of competition at different price points in the consumer market. The Company's major competitor, Seiko, focuses primarily on the modestly-priced end of the market. The Company's main international competitors are Lexibook, which markets French monolingual spelling correctors, thesauruses and dictionaries in France, and Hexaglot, which markets German-centric bilinguals and translators in Germany.

Competitive factors for electronic reference products are product quality and reliability, functionality, price, performance, speed of retrieval, quality of underlying databases, quality of spelling correction, portability, marketing and distribution capability, service and corporate reputation. The Company believes it is the leader in respect of each such factor.

The Company's reference products enjoy a reputation for quality resulting from their content, hardware design and easy-to-use applications. The Company's reference products are characterized by their capacity to permit the user to define the kind of information being sought and to provide information responsive to the user's request.

Sharp Electronics, Casio, and Royal are the Company's primary competitors in electronic organizers. Competitive factors for electronic organizers and personal computer companion products are size, product quality and reliability, functionality, price, performance, marketing and distribution capability and corporate reputation. The Company believes that it competes effectively in the electronic organizer market in respect of each of these factors.

A number of prominent electronics manufacturers, including Palm Inc., Handspring, Inc., 3Com, Sharp Electronics Corporation, Casio, Royal, Psion, LG Electronics, Gemstar TV Guide International Group and Hewlett-Packard Company, market palmtop personal organizer products, personal digital assistants, electronic books, computer peripherals, or general usage personal computers that offer varying degrees of electronic reference capabilities and personal information management functions. Many competitors in this market have greater capital, research and development, marketing and distribution

resources than the Company and there can be no assurance that the Company can successfully compete in this market.

EMPLOYEES

As of June 19, 2001, the Company employed approximately 175 persons in the United States, approximately 25 persons in Asia, and approximately 70 persons in international sales and marketing subsidiaries. None of the Company's employees is represented by a union. The Company believes its relations with its employees are satisfactory.

EXECUTIVE OFFICERS OF THE REGISTRANT

See Item 10 for information regarding the Company's executive officers.

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Merriam-Webster's is a trademark of Merriam-Webster, Inc.; Physicians' Desk Reference and Pocket PDR are trademarks of Medical Economics Data, a division of Medical Economics Company, Inc.; Palm is a trademark of Palm Inc.; Windows is a trademark of Microsoft Corporation; Handspring and Visor are trademarks of Handspring, Inc; and ROLODEX(R) is a registered trademark of Berol Corporation, a division of Newell Rubbermaid Inc.

ITEM 2. PROPERTIES

The Company owns a 90,000 square foot corporate headquarters in Burlington, New Jersey. The Company believes this facility will satisfy its foreseeable needs for office, laboratory and warehousing space.

ITEM 3. 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.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS - NONE

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock is traded on the American Stock Exchange under the symbol "FEP." Prior to June 18, 2001, the Company's common stock was traded on the New York Stock Exchange (the "NYSE"). The following table sets forth the range of the high and low closing sales prices as reported by the NYSE for the last two fiscal years:

	Sales	
Quarter Ended	High	Low
June 30, 1999	7.125	3.1875
September 30, 1999	6.25	1.25
December 31, 1999	6.25	2.875
March 31, 2000	8.25	5.0625
June 30, 2000	9.5	5.3125
September 30, 2000	12.375	7.5
December 31, 2000	11.875	4.25
March 31, 2001	7.140625	3.00

As of March 31, 2001, Dr. James H. Simons, the Company's Chairman of the Board, subscribed for 3,500 shares of the Company's Series A 10% Convertible Preferred Stock ("Convertible Preferred Stock") in consideration for the payment of $3,500,000. No placement agent was used in connection with this transaction.

Each share of the Convertible Preferred Stock has a stated value ("Stated Value") of $1,000.

The Convertible Preferred Stock may be converted at any time at the election of the holder thereof. Each share of Convertible Preferred Stock is initially convertible into that number of shares of common stock as is determined by dividing the Stated Value by $5 (the "Conversion Price"). At the current time, the outstanding shares of Convertible Preferred Stock are convertible into 700,000 shares of common stock. Dr. Simons has agreed not to convert any shares of the Convertible Preferred Stock unless and until the Company's shareholders ratify the issuance of the Convertible Preferred Stock as more fully disclosed in the Company's 2001 Proxy Statement.

If at any time while the Convertible Preferred Stock is outstanding the Company sells publicly or privately (i) shares of its common stock (other than any shares of common stock that may be issued

pursuant to the Company's Restricted Stock Plan or any successor thereto or upon the exercise of any options issued to employees, directors or consultants theretofore or thereafter granted by the Company), (ii) securities convertible into shares of its common stock, or (iii) options or warrants (other than options issued to employees, directors or consultants) to purchase shares of its common stock or securities convertible into shares of its common stock at a sale, conversion or exercise price per share, as the case may be, less than the Conversion Price then in effect, the Conversion Price shall be reset to the sale, conversion or exercise price per share, as the case may be.

The approximate number of holders of record of the common stock as of June 8, 2001 was 992.

The Company has not declared cash dividends on the common stock and does not have any plans to pay any cash dividends on the common stock in the foreseeable future. The Board of Directors of the Company anticipates that any earnings that might be available to pay dividends on the common stock will be retained to finance the business of the Company and its subsidiaries.

ITEM 6. SELECTED FINANCIAL DATA

The following tables should be read in conjunction with the consolidated financial statements of the Company and the notes thereto and the "Management's Discussion and Analysis of Financial Condition and Results of Operation" section appearing elsewhere herein.

	Year Ended March 31,			
	2001	2000	1999	1
STATEMENTS OF OPERATIONS DATA				
Sales	$ 79,966	97,078	$ 104,435	$
Cost of Sales	45,568	61,223	81,209	

Gross Margin	34,398	35,855	23,226	
Expenses:				
Sales and marketing	17,668	21,397	29,570	
Research and development	3,973	4,215	5,740	
General and administrative	9,752	11,746	20,283	
Total operating expenses	31,393	37,358	55,593	
Operating Income (Loss)	3,005	(1,503)	(32,367)	
Interest expense	(1,712)	(3,086)	(3,554)	
Interest and investment income	217	355	674	
Other, net	(596)	(1,162)	(656)	
Gain on Sale of REX	-	8,072	-	
Income (Loss) Before Income Taxes	914	2,676	(35,903)	
Income Tax (Benefit) Provision	-	-	(5,712)	
Net Income (Loss)	$ 914	2,676	$ (30,191)	$
Net Income (Loss) Per Share:				
Basic	$ 0.12	0.34	$ (3.81)	$
Diluted	$ 0.11	0.34	$ (3.81)	$
Weighted Average Shares:				
Basic	7,922	7,861	7,923	
Diluted	8,217	7,931	7,923	

	At March 31,			
	2001	2000	1999	19
BALANCE SHEET DATA				
Working Capital	$ 26,871	$ 20,777	$ 4,142	$
Total Assets	80,028	70,060	107,320	
Long-term Liabilities	13,947	11,690	1,541	
Shareholders' Equity	50,278	46,138	43,045	

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

OVERVIEW

Net income for the year ended March 31, 2001 was $.9 million, or $0.12 per share, compared with net income of $2.7 million, or $.34 per share, in the prior year. Results for the current year were negatively affected, in part, by a $2.6 million decrease in technology licensing revenue, a $5.4 million decline in sales of ROLODEX Electronics organizer products, and a $2.2 million decrease in sales of reference products in the United Kingdom.

Net income for the year ended March 31, 2000 was $2.7 million, or $0.34 per share, compared with a loss of $30.2 million, or $3.81 per share, in the prior year. Net income for the year ended March 31, 2000 includes a gain of $8.1 million from the divestiture of the REX product line in September 1999. Results for the year were negatively affected by first quarter charges of $2.6 million for price protection and inventory writedowns in connection with the Company's sale of a third party product, the Rocket eBook, costs of $2.3 million involved with the transition to new upgraded product lines and a restructuring charge of $1.1 million which included severance related to a 15% reduction in personnel.

RESULTS OF OPERATIONS

The following table summarizes the Company's historical results of operations as a percentage of sales for fiscal 2001, 2000 and 1999:

	Year Ended	
	2001	2000
Sales:		
Domestic Sales	$50,374	$64,0
International Sales	29,592	33,0
Total Sales	$79,966	$97,0
As a Percentage of Total Sales:		
Domestic Sales	63.0%	6
International Sales	37.0	3
Sales	100.0%	10
Cost of Sales	57.0	6
Gross Margin	43.0	3
Expenses:		
Sales and marketing	22.1	2
Research and development	5.0	
General and administrative	12.2	1
Total operating expenses	39.3	3
Operating Income (Loss)	3.8	(
Interest expense	(2.1)	(
Interest and investment income	0.3	
Other, net	(0.7)	(
Gain on sale of REX	--	

Income (Loss) Before Income Taxes	1.1
Income Tax (Benefit) Provision	--
Net Income (Loss)	1.1%

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Year Ended March 31, 2001 Compared With Year ended March 31, 2000

Sales for the year ended March 31, 2001 were $80 million compared with sales of $97.1 million in the prior year. During the year ended March 31, 2000 the Company sold its REX product line and discontinued its Rocket eBook product line, which accounted for sales of $6.1 million and $1.8 million, respectively, in the year ended March 31, 2000. The decrease in sales from the prior year is also attributable to a $2.6 million decrease in technology licensing revenue, a $5.4 million decline in sales of ROLODEX Electronics organizer products, a $2.2 million decrease in sales of reference products in the United Kingdom and a $.7 million decrease in sales by Voice Powered Technology International, Inc. ("VPTI"), the Company's 82% owned subsidiary. In addition, the continuing weakness in foreign currencies against the US dollar accounted for an approximately $3.0 million reduction in sales. These decreases were partially offset by $5.2 million of sales of the eBookMan product line which was introduced in the fiscal year ended March 31, 2001.

Gross margin for the year ended March 31, 2001 was $34.4 million, or 43%, compared with $35.9 million, or 37% in the prior year. The primary reasons for the gross margin percentage increase for the year ended March 31, 2001 were the inclusion in the prior year of an inventory writedown and price protection of $2.6 million in connection with the discontinued Rocket eBook product line and the incurrence in the prior year of costs associated with the transition to new upgraded reference and ROLODEX Electronics product lines. In addition, during the year ended March 31, 2001, lower margin ROLODEX Electronic products represented 16% of sales compared with 19% of sales in the prior period.

Total operating expenses decreased from $37.4 million in the year ended March 31, 2000 to $31.4 million in the year ended March 31, 2001. Sales and marketing expense decreased by $3.7 million, or 17%, to $17.7 million. The decrease in sales and marketing expense resulted primarily from a $1.4 million reduction in expenses that vary directly with sales such as commissions, allowances and freight, a $1 million reduction in expenses related to development of the Company's website, and lower personnel expenses of $.7 million.

Research and development expense in the year ended March 31, 2001 decreased to $4.0 million from $4.2 million in the prior year as a $1.1 million increase in personnel costs and a $.5 million increase in outside development costs were offset by the capitalization of $3.0 million (including $2.2 of capitalized costs relating to the new eBookMan platform) of software development costs in the year needed March 31, 2001 compared with $1.5 million in the prior year.

General and administrative expense decreased by $2 million, or 17%, to $9.7 million for the year ended March 31, 2001. The reduction in general and administrative expense was primarily due to a $.9 million decrease in amortization of deferred computer software and patents, a $.4 million decrease in accounts receivable provisions and a $.5 million reduction in expenses

incurred by VPTI.

Interest expense declined from $3.1 million in the year ended March 31, 2000 to $1.7 million for the year ended March 31, 2001 due to lower debt levels during the 2001 fiscal year. Other, net consists of transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the US dollar.

Because of net operating loss carryforwards, income taxes have been offset by a reduction in the income tax valuation allowance. (See Note 12).

Year Ended March 31, 2000 Compared With Year ended March 31, 1999

Sales for the year ended March 31, 2000 were $97.1 million compared with sales of $104.4 million in the prior year. During the year ended March 31, 2000 the Company sold its REX product line, which accounted for sales of $6.1 million and $15.7 million in the years ended March 31, 2000 and 1999 respectively. Excluding sales of the REX product from both years, sales increased approximately $2.2 million, or 2.5% over the prior year. That increase results from an increase of $4.6 million, or 33%, in sales of ROLODEX Electronics organizer products and sales of $1.8 million from the Rocket eBook which was introduced and discontinued in the fiscal year ended March 31, 2000.

These increases were partially offset by sales decreases of $3.0 million, or 4%, in reference products and $1.2 million, or 56%, by VPTI.

Gross margin for the year ended March 31, 2000 was $35.9 million, or 37%, compared with $23.2 million, or 22% in the prior year. Gross margin in the prior year was reduced by provisions for inventory obsolescence of $13.5 million. Excluding the effect of these provisions, fiscal 1999 gross margin was $36.1 million, or 35%.

Total operating expenses decreased from $55.6 million in the twelve months ended March 31, 1999 to $37.4 million in the year ended March 31, 2000. Sales and marketing expense decreased by $8.2 million, or 28%, to $21.4 million. The decrease was primarily the result of lower advertising expenditures, which fell from $12.3 million in the 1999 fiscal year to $6.4 million in the 2000 fiscal year. The higher advertising expenditures in the prior year were primarily related to the support of the REX product line.

Research and development expense declined $1.5 million, or 27%, to $4.2 million for the year ended March 31, 2000. The reduction in expense was mainly the result of reduced staffing levels which resulted from the Company-wide personnel reduction implemented in the June 1999 quarter.

General and administrative expense decreased by $8.5 million, or 42%, to $11.7 million for the year ended March 31, 2000. The prior year's results included restructuring charges of $2.4 million and an accounts receivable writedown of $2.3 million. Excluding the effect of these charges, general and administrative expense declined $3.8 million primarily due to a $1.8 million reduction in employment related costs as a result of the June 1999 staff reductions and a $0.5 million reduction in expenses incurred by VPTI.

Interest expense declined from $3.6 million in the year ended March 31, 1999 to $3.1 million for the twelve months ended March 31, 2000 due to lower debt levels during the 2000 fiscal year. Other, net consists of transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the US dollar.

Because of net operating loss carryforwards, income taxes have been offset by a reduction in the income tax valuation allowance. (See Note 12).

INFLATION AND CURRENCY TRANSACTIONS

Inflation has had no significant effect on the operations of the Company for the three years ended March 31, 2001. However, competitive pressures and market conditions in the future may limit the Company's ability to increase prices to compensate for general inflation or increases in prices charged by suppliers.

The Company's operating results may be affected by fluctuations in currency exchange rates. The Company did not enter into any hedge transactions during the year ended March 31, 2000. In the year ended March 31, 2001, the Company entered into several foreign exchange forward contracts with financial institutions to limit its exposure to currency fluctuation loss on sales made by its European subsidiaries.

SEASONALITY

The Christmas selling season (October, November and December) and the "back to school" season (mid-August to mid-September) are the strongest selling periods for the Company's products. The timing of the publication of new books may also significantly affect revenues and cause quarterly revenues and earnings fluctuations.

The following table sets forth unaudited net sales for each of the Company's last twelve fiscal quarters:

	Quarter Ended June 30	Quarter Ended September 30	Quarter En December
		(dollars in thousands)	
Fiscal 2001	$17,052	$20,511	$22,43
Fiscal 2000	19,936	30,445	31,39
Fiscal 1999	21,174	32,252	34,71

FUTURE INCOME TAX BENEFITS

The Company has future income tax benefits of $9.2 million which can be utilized against future earnings. Further, as a result of the VPTI acquisition, the Company has additional future income tax benefits of $9.3 million which can be utilized against future earnings of VPTI. The Company has provided an income tax valuation allowance of $12.8 million against these tax assets. The remaining $5.7 million balance represents the amount that the Company believes that it can reasonably expect to utilize in the foreseeable future.

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash, cash equivalents and short-term investments of $2.8 million at March 31, 2001 compared with $6.9 million at March 31, 2000. The decrease of $4.1 million was primarily attributable to the Company's investment

of approximately $18 million in its new eBookMan platform and the repayment of $2 million of principal of its Senior Notes, partially offset by cash of $12 million generated by its core business and $4.1 million of borrowings under its secured financing credit facility.

As of March 31, 2001 the Company had a balance of $10.3 million outstanding under its Senior Notes. A principal payment of $2.0 million is due to the noteholders on March 31, 2002.

As of March 31, 2001, Dr. James H. Simons, the Company's Chairman of the Board, subscribed for 3,500 shares of the Company's Series A 10% Convertible Preferred Stock ("Convertible Preferred Stock") in consideration for the payment of $3,500,000. No placement agent was used in connection with this transaction. Each share of the Convertible Preferred Stock has a stated value ("Stated Value") of $1,000.

The Convertible Preferred Stock may be converted at any time at the election of the holder thereof. Each share of Convertible Preferred Stock is initially convertible into that number of shares of common stock as is determined by dividing the Stated Value by $5 (the "Conversion Price"). At the current time, the outstanding shares of Convertible Preferred Stock are convertible into 700,000 shares of common stock. Dr. Simons has agreed not to convert any shares of the Convertible Preferred Stock unless and until the Company's shareholders ratify the issuance of the Convertible Preferred Stock as more fully disclosed in the Company's 2001 Proxy Statement.

If at any time while the Convertible Preferred Stock is outstanding the Company sells publicly or privately (i) shares of its common stock (other than any shares of common stock that may be issued pursuant to the Company's Restricted Stock Plan or any successor thereto or upon the exercise of any options theretofore or thereafter granted by the Company to employees, directors or consultants), (ii) securities convertible into shares of its common stock, or (iii) options or warrants (other than options issued to employees, directors or consultants) to purchase shares of its common stock or securities convertible into shares of its common stock at a sale, conversion or exercise price per share, as the case may be, less than the Conversion Price then in effect, the Conversion Price shall be reset to the sale, conversion or exercise price per share, as the case may be.

In December 1999, the Company entered into a $25 million secured financing facility which expires on December 7, 2002. Borrowings under the facility bear interest at the bank's prime rate plus 3/8% and are subject to certain financial covenants and restrictions on indebtedness, dividend payments, business combinations, and other related items. As of March 31 2001, the Company had $4.1 million of borrowings under this facility.

Management believes that cash flow from operations and the secured financing facility will be adequate to provide for the Company's liquidity and capital needs for the foreseeable future.

The Company has no material commitments for capital expenditures in the next twenty-four months.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

FRANKLIN ELECTRONIC PUBLISHERS, INCPORORATED AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

Shareholders and Directors of
Franklin Electronic Publishers, Incorporated
Burlington, New Jersey 08016

We have audited the accompanying balance sheets of Franklin Electronic Publishers, Incorporated and subsidiaries as of March 31, 2001 and March 31, 2000 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years ended March 31, 2001. 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 generally accepted in the 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, 2001 and March 31, 2000, and the results of its operations and cash flows for each of the three years ended March 31, 2001 in conformity with accounting principles generally accepted in the United States.

RADIN, GLASS & CO., LLP
Certified Public Accountants

New York, New York
May 15, 2001

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FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except for per share data)

	Year Ended March 31,		
	2001	2000	1999
SALES	$ 79,966	$ 97,078	$ 104,435
COST OF SALES	45,568	61,223	81,209
GROSS MARGIN	34,398	35,855	23,226
EXPENSES:			
Sales and marketing	17,668	21,397	29,570
Research and development	3,973	4,215	5,740
General and administrative	9,752	11,746	20,283
Total operating expenses	31,393	37,358	55,593
OPERATING INCOME (LOSS)	3,005	(1,503)	(32,367)
Interest expense	(1,712)	(3,086)	(3,554)
Interest and investment income	355	674	217
Other, net	(596)	(1,162)	(656)
Gain on Sale of REX	--	8,072	--
INCOME (LOSS) BEFORE INCOME TAXES	914	2,676	(35,903)
INCOME TAX (BENEFIT) PROVISION	--	--	(5,712)
NET INCOME (LOSS)	$ 914	$ 2,676	$ (30,191)
NET INCOME (LOSS) PER SHARE:			
Basic	$ 0.12	$ 0.34	$ (3.81)
Diluted	$ 0.11	$ 0.34	$ (3.81)
WEIGHTED AVERAGE SHARES:			
Basic	7,922	7,861	7,923
Diluted	8,217	7,931	7,923

See notes to consolidated financial statements.

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FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

ASSETS

CURRENT ASSETS:

Cash and cash equivalents (Note 3)
Accounts receivable, less allowance for doubtful accounts of $1,161 and $850
Preferred stock subscriptions receivable
Inventories (Note 4)
Income tax receivable
Prepaids and other assets

TOTAL CURRENT ASSETS

PROPERTY AND EQUIPMENT (Note 5)

OTHER ASSETS:

Deferred income tax asset (Note 13)
Trademark, less accumulated amortization of $1,749 and $1,360 (Note 9)
Advance royalties and licenses
Software development costs
Other assets

TOTAL OTHER ASSETS

TOTAL ASSETS

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable and accrued expenses (Note 6)
Notes payable (Note 7)
Current portion of long-term liabilities - Other

TOTAL CURRENT LIABILITIES

LONG-TERM LIABILITIES (Note 7):

Notes payable
Revolving credit facility
Other liabilities

TOTAL LONG-TERM LIABILITIES

SHAREHOLDERS' EQUITY (Note 11):

Preferred stock, $2.50 par value, authorized 10,000,000 shares, none issued or outstanding
- Preferred stock subscribed
Common stock, no par value, authorized 50,000,000 shares, issued and outstanding, 7,952,882 and 7,914,940 shares
Retained earnings (deficit)
Foreign currency translation adjustment (Note 12)

TOTAL SHAREHOLDERS' EQUITY

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

See notes to consolidated financial statements.

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOW
(in thousands)

	2001
CASH FLOWS FROM OPERATING ACTIVITIES:	
NET INCOME (LOSS)	$ 91
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS)	
TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Depreciation and amortization	5,22
Non-cash interest expense	18
Provision for losses on accounts receivable	20
Provision for inventory revaluation	-
Write-down of carrying value of royalties & other assets	
Loss on disposal of property and equipment	
Stock issued for services	25
Gain on sale of REX	-
Deferred income taxes	-
Source (use) of cash from change in operating assets and liabilities:	
Accounts receivable	(1,40
Inventories	(7,14
Prepaids and other assets	(1,80
Accounts payable and accrued expenses	3,57
Other, net	(
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	(1,73
Proceeds from sale of property and equipment	-
Software development costs	(3,05
Proceeds from sale of REX line	-
Investments in limited partnerships	-
Redemption of investments in limited partnerships	-
Change in other assets	(79
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(5,58
CASH FLOWS FROM FINANCING ACTIVITIES:	
Principal payments of mortgage	-
Principal payments of Senior Notes	(2,00
Proceeds from revolving credit facility	4,06

Proceeds from issuance of common shares	24
Purchase of common shares	-
Other liabilities	1
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	2,32
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(79
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,06
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6,89
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 2,83
SUPPLEMENTAL DATA:	
Cash paid during the year:	
Income taxes	$ 2
Interest	$ 1,53

See notes to consolidated financial statements.

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(in thousands, except for share data)

	Common Stock		Preferred Stock		
	Shares	Amount	Shares	Amount	Retained Earnings
BALANCE - MARCH 31, 1998	8,072,026	$ 50,489			$ 25,249
Issuance of common shares under employee stock option plan	29,877	274			--
Issuance of shares and amortization of deferred compensation expense for shares issued for services (unearned portion $8)	5,052	47			--
Value of stock options granted		306			--
Purchase and retirement of common shares.	(274,000)	(2,332)			--
Loss for the period	--	--			(30,191)
Foreign currency translation adjustment	--	--			--
BALANCE - MARCH 31, 1999	7,832,955	48,784	--	--	(4,942)
Issuance of common shares under employee stock option plan	40,259	153			--
Issuance of shares and amortization of deferred compensation expense for shares issued for services (unearned					

portion $47)	19,250	16			--
Value of stock options granted	--	75			--
Shares issued under banked vacation stock plan	22,476	110			--
Income for the period	--	--			2,676
Foreign currency translation adjustment	--	--			--
BALANCE - MARCH 31, 2000	7,914,940	49,138	--	--	(2,266)
Issuance of common shares under employee stock option plan	37,942	244			--
Issuance of shares and amortization of deferred compensation expense for shares issued for services (unearned portion $26)	--	21			--
Value of stock options granted	--	255			--
Preferred stock subscribed			3,500	3,500	
Income for the period	--	--			914
Foreign currency translation adjustment	--	--			--
BALANCE - MARCH 31, 2001	7,952,882	$ 49,658	3,500	$ 3,500	$ (1,352)

* Comprehensive income, i.e., net income (loss), plus, or less, other comprehensive income, totaled $120 in 2001, $2,739 in 2000, and $(29,996) in 1999.

See notes to consolidated financial statements.

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 handheld electronic information products, such as electronic books (sometimes known as eBooks), organizer products and related software. Other activities represent less than 10% of sales, operating income 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 generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial

statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Inventories

Inventories are valued at the lower of cost or market 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 and 40 years for building and improvements.

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

Trademark and Goodwill are recorded at cost. The ROLODEX Electronics trademark is being amortized over a 40-year period. Goodwill of purchased businesses is being amortized over a 10 to 30-year period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Right of Return and Refurbishing Costs

The Company provides an allowance for estimated returns on sales in accordance with Statement of Financial Accounting Standard (SFAS) No. 48, "Revenue Recognition when Right of Return Exists." The Company's sales are made with the right of exchange for defective products within one year from the original retail purchase. The Company provides for the cost of refurbishing such products.

Price Protection

The Company maintains a policy of providing price protection to its dealers under which the Company issues credits in the event it reduces its prices. These credits are generally computed by multiplying either the number of units purchased within ninety days prior to the price reduction or the number of units on hand at retail at the time of the price reduction by the dollar amount of the price reduction. A provision for the related reduction in sales is made at such time as the Company determines that a price reduction will be effective or is reasonably anticipated.

Software Development Costs

The capitalization of such costs and the related amortization is in accordance with SFAS 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 $3,052, $1,500 and $1,925 for the fiscal years ended March 31, 2001, 2000, and 1999, respectively.

Amortization included in the accompanying Consolidated Statement of Operations for fiscal years ended March 31, 2001, 2000, and 1999, was $2,025, $1,989 and $1,947, 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.

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. The carrying amount of the Company's borrowings under the Senior Notes approximates fair value.

Foreign Currency Translation

Unrealized gains and losses resulting from translating foreign subsidiaries' assets and liabilities into U.S. dollars are deferred in an equity account on the balance sheet until such time as the subsidiary is sold or liquidated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

As of March 31, 2001 the Company had three outstanding foreign exchange contracts entered into with financial institutions to limit its exposure to loss, resulting from fluctuations in the value of the Euro. The market value of these contracts was $74 on March 31, 2001 and a gain for the same amount was included in net income for the period. The duration of these contracts does not exceed one year. As of March 31, 2000 the Company had no outstanding foreign exchange contracts.

Accounting for Long-Lived Assets

In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the Company reviews long-lived assets, certain identifiable assets and any goodwill related to those assets for impairment whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recoverable. At March 31, 2001, the Company believes that there has been no impairment of its long-lived assets.

Income Taxes

The Company utilizes the liability method of accounting for income taxes as set forth in SFAS No. 109, "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.

Earnings (Loss) Per Share

In accordance with SFAS No. 128, "Earnings per Share," earnings per common share are computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. The earnings per common share, assuming dilution, computation gives effect to all dilutive potential 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:

The Company accounts for stock transactions in accordance with APB Opinion No. 25, "Accounting For Stock Issued To Employees." Accordingly, no compensation is recorded on the issuance of employee stock options at fair market value.

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.

3. CASH AND CASH EQUIVALENTS

The Company classifies as cash equivalents highly liquid investments with maturities of less than ninety days totaling $2,133 and $5,472 at March 31, 2001 and 2000, respectively.

4. INVENTORIES

Inventories consist of the following:

	March 31,
	2001
Finished products	$16,033
Component parts	4,846
	$20,879

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	March 31,
	2001

Land	$ 843
Building and improvements	5,599
Furniture and equipment	7,040
Tooling	5,766
Computer software purchased	2,366
	21,614
Accumulated depreciation and amortization	13,963
	$ 7,651

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following:

	March 31, 2001
Trade accounts payable	$ 7,125
Accrued payroll, bonus, payroll benefits and taxes	1,811
Accrued restructuring costs	37
Accrued sales allowances	1,553
Accrued royalties	555
Accrued expenses - other	2,566
	$13,647

7. LONG-TERM LIABILITIES

Long-term liabilities consist of the following:

	March 31, 2001
Senior Notes payable	$10,329
Revolving credit facility	4,064
Other	1,710
	16,103
Less current portion	2,156

	$13,947

During the year ended March 31, 1997, the Company sold $40,000 of 10-year promissory notes (the "Senior Notes") to institutional investors. The Senior Note agreement contains normal financial covenants, including a restriction on dividends and other restricted payments, subject to adjustments for earnings and sales of common stock. The Senior Note agreement also contains a prepayment penalty and a provision for repurchase should there be a change of control.

Because of a default in certain of the financial covenants, the Senior Note agreement was restructured in December 1999 to allow the Company to continue to operate under the agreement without default. Under the amended agreement, the Senior Notes carry an interest rate of 11% per annum and additional interest (the payment in kind portion) at a rate of 1.5% per annum payable in cash, or in lieu of cash and at the Company's option, through the issuance of additional notes. Principal payments of $2,000 and $28,000 were made on the Senior Notes during the years ended March 31, 2001 and 2000, respectively. As of March 31, 2001 the outstanding balance was $10,329, which includes $329 of additional notes issued in lieu of cash for a portion of the interest due under the amended agreement. Principal payments of $2,000 are due on March 31 of each of the years 2002 through 2005 with the balance of $2,329 due March 31, 2006.

During the year ended March 31, 1997, the Company obtained a $4,260 mortgage on its facility in Burlington, New Jersey. The entire balance of this mortgage was repaid during the year ended March 31, 2000.

In December 1999, the Company entered into a $25,000 secured financing facility which expires on December 7, 2002. Borrowings under the facility bear interest at the bank's prime rate (8% at March 31, 2001) plus 3/8% and are subject to certain financial covenants and restrictions on indebtedness, dividend payments, business combinations, and other related items. As of March 31, 2001 no amounts were available for paying dividends. Borrowings are collateralized by substantially all assets of the Company. As of March 31 2001 the Company had an outstanding balance of $4,064 under the facility and is in compliance with all covenants.

The maturities of long-term liabilities for the five years after March 31, 2001 are as follows:

Years Ending March 31,			
2002	$2,159	2005	$2,119
2003	$2,128	2006	$2,448
2004	$2,119		

8. ADVERTISING AND MEDIA COSTS

Advertising costs for the years ended March 31, 2001, 2000 and 1999 were

$5,725, $6,412 and $12,256, respectively. Deferrals of direct response advertising were not material.

9. COMMITMENTS

Lease Commitments

Rent expense under all operating leases was $866, $1,111 and $1,180 for the years ended March 31, 2001, 2000 and 1999, respectively. The future minimum rental payments to be made under non-cancellable operating leases, principally for facilities, as of March 31, 2001 were as follows:

Years Ending March 31,			
2002	$530	2005	$179
2003	$371	2006	$177
2004	$231		

Royalty Agreements

The Company acquires the rights to reference works and databases 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.

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.

10. SHAREHOLDERS' EQUITY

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

The Company maintains a Restricted Stock Plan which 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, 2001, under the Plan, 5,050 shares of common stock were available for distribution by the Board of Directors.

Employee Stock Options

Under the 1998 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.

10. SHAREHOLDERS' EQUITY-Continued

The 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 for incentive

stock options and at not less than 75% of the fair market value on the date of grant for non-incentive stock options. 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 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.

During the year ended March 31, 2001 the company granted 74,500 options to persons performing consulting services for the company. The options were valued at a total of $437 using the Black-Scholes option-pricing model with the expense being amortized over the vesting period of the options. The current year's results of operations include $224 of expense related to these options.

During the year ended March 31, 1999, the Company granted the former President of the Company 35,000 options at a price less than the market price of the common stock on the grant date. These options are included in the computation of weighted-average fair value of stock options granted during the year ended March 31, 1999. The Company has also recorded the excess of market price over option price of $306 at date of grant as compensation expense for the year ended March 31, 1999.

Accounting for Employee Stock Options

The Company accounts for its stock option plan under APB Opinion No. 25, "Accounting for Stock Issued to Employees", under which no compensation expense is recognized. In fiscal 1997, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation", for disclosure purposes; accordingly, no compensation expense is recognized for options granted at fair market value in the results of operations for its stock option plan as required by APB Opinion No. 25.

For disclosure purposes, 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, 2001, 2000, and 1999, respectively: annual dividends of $0.00 for all years, expected volatility of 110.8%, 116.0% and 55.0%, risk-free interest rate of 5.8%, 5.8% and 5.6% and expected life of five 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, 2001, 2000, and 1999 was as follows:

	Number of Shares Granted	Weighted-Average Exercise Price	W
Year ended March 31, 1999:			
Exercise price equals market value	681,000	$10.24	
Exercise price less than market value	35,000	$3.50	
	716,000	$9.91	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-Continued

10. SHAREHOLDERS' EQUITY-Continued

Year ended March 31, 2000:		
Exercise price equals market value	217,000	$5.71
Exercise price greater than market value	489,000	$4.00
Exercise price less than market value	27,000	$5.69
	733,000	$4.57
Year ended March 31, 2001:		
Exercise price equals market value	554,354	$7.35
Exercise price greater than market value	84,000	$8.50
Exercise price less than market value	25,000	$6.81
	663,354	$7.47

If the Company recognized compensation cost for the employee stock option plan in accordance with SFAS No. 123, the Company's pro-forma net income (loss) and earnings (loss) per share would have been $(0.2) million and $(0.02) in 2001, $1.5 million and $0.19 in 2000, and $(32.0) million and $(4.06) in 1999. The SFAS No. 123 method of accounting does not apply to options granted prior to March 31, 1995 and, accordingly, the resulting pro-forma compensation cost may not be representative of that to be expected in future years.

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

	Stock O
	Shares
Outstanding at March 31, 1998	1,014,474
Granted	716,000
Exercised	(29,877)
Expired or cancelled	(110,867)
Outstanding at March 31, 1999	1,589,730
Granted	733,000
Exercised	(40,259)
Expired or cancelled	(553,763)
Outstanding at March 31, 2000	1,728,708
Granted	663,354
Exercised	(37,942)
Expired or cancelled	(227,275)
Outstanding at March 31, 2001	2,126,845

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-Continued

10. SHAREHOLDERS' EQUITY-Continued

The following table summarizes information about stock options outstanding at March 31, 2001:

	Options Outstanding			
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Nu Exerc
$ 3.00 - $4.00	424,000	7.95	$ 3.98	
4.75 - 7.00	347,415	7.85	5.76	
7.50 - 8.50	557,950	8.88	7.69	
8.75 - 11.81	372,015	5.60	10.10	
12.25 - 31.63	425,465	3.36	15.40	
$ 3.00 -$31.63	2,126,845			1

Options exercisable and the weighted average exercise price at March 31, 2000 and March 31, 1999 were 927,042 options and $12.44, and 723,691 options and $13.15, respectively.

Effective March 31, 2001 the Chairman of Franklin's Board of Directors, Dr. James H. Simons, subscribed for 3500 shares of the Company's Series A 10% Convertible Preferred Stock in consideration for the payment of $3,500. The preferred shares are convertible into common stock at a conversion price of $5.00 per share and bear interest at the rate of 10% per year, payable in additional shares of the Convertible Preferred Stock every six months. Payment for the subscribed shares was received by the Company in April 2001.

11. FREIGHT BILLED

The Company adopted EITF 00-10, "Accounting for Shipping and Handling Fees and Costs," in the fourth quarter of fiscal 2001 and has restated all comparative prior period financial statements. Under its provisions, amounts billed to a customer in a sale transaction related to shipping and handling represent revenue earned for the goods provided and should be classified as sales revenue. Shipping and handling charges billed to customers are now recorded as part of total revenue. Previously, all shipping and handling revenue was netted within sales and marketing expense. The amounts reclassified for shipping and handling revenue totaled $567, $656 and $642 for fiscal years ended March 31, 2001, 2000 and 1999, respectively. The reclassification has no impact on net income, but does have an impact on revenue, gross margin and sales and marketing expense. Shipping and handling costs continue to be classified as part of sales and marketing expense and were $1,528, $1,584 and $1,573 for fiscal years ended March 31, 2001, 2000 and 1999, respectively.

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-Continued

12. INCOME TAXES

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

	March 31, 2001
US loss carryforward - Franklin	$ 7,385
US loss carryforward - VPTI	9,284
Foreign loss carryforward	217
Inventory valuation allowances	2,570
Other items (taxable) deductible in future years - net	(924)
	18,532
Deferred income tax valuation allowance	12,832
	$ 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 loss carryforward of Voice Powered Technology International, Inc. ("VPTI") can be offset against future taxable income of VPTI and of Franklin under certain circumstances. The deferred asset relating to VPTI's loss carryforward has been offset by a valuation allowance.

The income tax provision (credit) consists of the following:

	Year Ended March 31, 2001	2000
Current		
Federal	--	--
State	--	--
Foreign	--	--
	--	--
Deferred		
Federal	--	--
State	--	--
Foreign	--	--
	--	--
Provision (benefit) for income taxes	--	--

	==========	==========

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, 2001, 2000 and 1999 is as follows:

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-Continued

12. INCOME TAXES -Continued

	Year Ended March 31,	
	2001	2000
Income before income taxes	$ 914	$ 2,676
Computed expected tax	320	936
Effect of non-deductible expenses	41	--
Reversals of income tax accruals	--	--
State tax provision	--	--
Change in valuation allowance	(361)	936
Provision (benefit) for income taxes	--	--

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 forwards and expiration dates are the following:

	Amounts	Exp
Franklin - US	$ 20,200	
VPTI	$ 26,500	
Foreign	$ 900	

13. OPERATIONS

Under SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," the Company's operations are treated as one operating segment, as it only reports profit and loss information on an aggregate basis to the chief operating decision maker of the Company. Information about the Company's product sales and major customers are as follows:

March 31,

Product Sales	2001	2000
Reference (including licensing)	$61,460	$69,858
ROLODEX Electronics	13,062	18,348
EbookMan	5,209	--
REX	--	6,143
Rocket eBook	--	1,764
Other	235	965
Total Sales	$79,966	$97,078

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-Continued

13. OPERATIONS - Continued

Approximate foreign sources of revenues including export sales were as follows:

	March 31,	
Product Sales	2001	2000
Europe	$21,702	$26,247
Other International	7,890	6,756

For the fiscal years ended March 31, 2001, 2000 and 1999, no customer accounted for more than 10% of the Company's revenues.

For the fiscal year ended March 31, 2001, three suppliers accounted for more than 10% of the Company's purchases of its inventory. The three suppliers individually accounted for 16.7%, 15.6% and 10.0% of inventory purchases.

Sale of Rex Product Line

In September 1999 the Company sold its REX product line for $13,250 and the assumption of related liabilities. The Company realized a gain of $8,072 on the sale. The assets sold consisted primarily of inventory with a carrying value of approximately $5,000 and the Company's trademarks, copyrights, contract rights and other assets used in connection with the REX business.

Restructuring Costs

During the year ended March 31, 2000, severance and other employee costs relating to the change in management and costs of office closures approximating $3,000 were charged to accrued restructuring costs.

14. WEB SITE DEVELOPMENT COSTS

In accordance with EITF 00-2, "Accounting for Web Site Development Costs" the Company has expensed all of its web site development costs. No web site

development costs were incurred during the years ended March 31, 2001 and 2000, which would be capitalized under EITF 00-2. Any web site development costs incurred during the year ended March 31, 1999, which might have been capitalizable, have been charged to expense based on the restructuring that occurred at the end of that fiscal year.

15. RECENT ACCOUNTING PRONOUNCEMENTS

In December 1999, the Securities and Exchange Commission released Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101") which did not have a material impact on the Company's financial statements.

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-Continued

16. SUMMARIZED QUARTERLY FINANCIAL DATA (UNAUDITED)

	Quarter Ended		
	June 30	September 30	December
Fiscal 2001			
Net sales	$17,052	$20,511	$2
Gross margin	7,460	8,812	
Net income (loss)	433	208	
Net income (loss) per share:			
Earnings per common share	0.05	0.03	
Earnings per common share - assuming dilution	0.05	0.02	
Fiscal 2000			
Net sales	$19,936	$30,445	$3
Gross margin	4,893	10,759	1
Net income (loss)	A. (8,607)	B. 9,748	
Net income (loss) per share:			
Earnings per common share	(1.10)	1.24	
Earnings per common share - assuming dilution	(1.10)	1.24	
Fiscal 1999			
Net sales	$21,174	$32,252	$3
Gross margin	9,557	12,040	
Net income (loss)	(684)	41	(8
Net income (loss) per share:			
Earnings per common share*	(0.08)	0.01	(
Earnings per common share - assuming dilution*	(0.08)	0.01	(

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* Reflects the adoption of SFAS No. 128, "Earnings Per Share," including the restatement of prior years.

A. The loss of $8.6 million in the quarter ended June 30, 1999 includes an

inventory writedown and price protection $2.6 million in connection with the Franklin Rocket eBook, $2.3 million in connection with the transition to the new upgraded product lines and restructuring charges of $1.1 million, which include severance related to a 15% reduction in personnel effected during the June 1999 quarter and expenses related to the closing of certain of the Company's foreign subsidiaries.

B. See Note 13.

C. The loss of $21.4 million for the quarter ended March 31, 1999 includes inventory writedowns of $3.5 million, price protection of $2.9 million, writedown of royalty advances of $4.7 million, write-off of $2.3 million of receivables, and restructuring charges, including costs of changes in management of $1.4 million. The Company did not provide for any significant tax benefit from the loss.

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

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

NAME	AGE	POSITION
Barry J. Lipsky	50	President and Chief Executive Officer; Director
Gregory J. Winsky	51	Executive Vice President, Business Development, General Cou and Secretary
Arnold D. Levitt	64	Senior Vice President, Chief Financial Officer; Treasurer
Toni M. Tracy	52	Senior Vice President, Publisher Relations
Robert L. Garthwaite	40	Vice President, Worldwide Sales and Marketing

Mr. Lipsky joined the Company as Vice President in February 1985. He was elected Executive Vice President of the Company in 1997, Interim President and Chief Operating Officer in April 1999 and President and Chief Executive Officer in May 1999. Mr. Lipsky is a director of Voice Powered Technology International, Inc., an approximately 82% owned subsidiary of the Company.

Mr. Winsky was elected Vice President and Secretary of the Company in June 1984, was elected Senior Vice President in January 1993 and was elected Executive Vice President in July 1999. Mr. Winsky is Chief Executive Officer and a director of Voice Powered Technology International, Inc., an approximately 82% owned subsidiary of the Company.

Mr. Levitt joined the Company in May 1999 as Interim Chief Financial Officer and Treasurer and was elected Senior Vice President, Chief Financial Officer and Treasurer of the Company in September 1999. Mr. Levitt has been engaged in consulting as a chief financial officer or senior business adviser for companies in a variety of industries since 1996. Prior to these consulting arrangements, Mr. Levitt was Executive Vice President and Chief Operating

Officer of WIC Gaming Supply Corp. Mr. Levitt has owned or was employed as a chief financial officer of a number of companies and also worked in public accounting. Mr. Levitt is Chief Financial Officer and a director of Voice Powered Technology International, Inc., an approximately 82% owned subsidiary of the Company.

Ms. Tracy joined the Company in February 1995 as Vice President of the Company's Medical Division and was elected Vice President, Publisher Relations, of the Company in May 1996. In September 1996, Ms. Tracy was named President of the Medical Division. She was elevated to Senior Vice President in 1998. From 1984 until 1995, Ms. Tracy was employed by Churchill Livingstone, the medical publishing subsidiary of Pearson plc, a British media conglomerate, in a variety of publishing positions and last held the position of Executive Vice President and Publisher of Churchill Livingstone International, an Anglo-American medical publishing enterprise.

Mr. Garthwaite joined the Company in 1990 as Product Development Coordinator and in August 1998 was named Vice President for Reference and ROLODEX(R) Electronics Organizer Products. In December 1999, he was elected Vice President of the Company for Worldwide Sales and Marketing.

Additional information called for by Item 10 is set forth under the heading "Election of Directors" in the Company's Proxy Statement for its 2001 annual meeting of stockholders (the "2001 Proxy Statement"), which is incorporated herein by this reference.

ITEM 11. EXECUTIVE COMPENSATION

Information called for by Item 11 is set forth under the heading "Executive Compensation" in the 2001 Proxy Statement, which is incorporated herein by this reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information called for by Item 12 is set forth under the heading "Security Ownership of Certain Beneficial Owners and Management" in the 2001 Proxy Statement, which is incorporated herein by this reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information called for by Item 13 is set forth under the heading "Certain Relationships and Related Transactions" in the 2001 Proxy Statement, which is incorporated herein by this reference.

PART IV

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

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.

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	--	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)
3.04	--	By-laws of Franklin (Incorporated by reference to Exhibit 3.02 to the Company's 1986 S-1 Registration Statement)
3.05	--	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)
3.06	--	Amendment to By-laws of Franklin (Incorporated by reference to Exhibit 3.05 to the Company's 1990 10-K)
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	--	Loan and Security Agreement dated as of December 7, 1999 among Banc of America Commercial Finance Corp., Franklin, Franklin Electronic Publishers (Europe) Ltd., and Franklin Electronic Publishers (Deutchland) GmbH (Incorporated by reference to the Exhibit to the Company's Report on Form 8-K filed on December 14, 1999)
10.05**+	--	Franklin Stock Option Plan as Amended and Restated effective May 18, 2001

** Management contract or compensatory plan or arrangement required to be filed as an exhibit to this form pursuant to Item 14(c) of this report.

+ Filed herewith

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 21, 2001

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/ Edward H. Cohen Edward H. Cohen	Director	June 20, 2001
/s/ Kenneth D. Cron Kenneth D. Cron	Director	June 20, 2001
/s/ Barry J. Lipsky Barry J. Lipsky	Director	June 21, 2001
/s/ Leonard M. Lodish Leonard M. Lodish	Director	June 20, 2001
/s/ James Meister James Meister	Director	June 20, 2001
/s/ Howard L. Morgan Howard L. Morgan	Director	June 21, 2001
/s/ Jerry R. Schubel Jerry R. Schubel	Director	June 21, 2001
/s/ James H. Simons James H. Simons	Director	June 20, 2001
	Director	_____, 2001

William H. Turner		
/s/ Arnold D. Levitt Arnold D. Levitt	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	June 21, 2001