FRANKLIN ELECTRONIC PUBLISHERS INC
Form 10-Q
February 13, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended: December 31, 2003

OR

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

For the transition period from __________ to __________

Commission File No. 0-14841

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania	**22-2476703**
(State or other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**

One Franklin Plaza, Burlington, New Jersey 08016-4907

(Address of Principal Executive Office)

(609) 386-2500

(Registrant s Telephone Number)

Indicate by check mark whether 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 Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

COMMON STOCK OUTSTANDING AS OF DECEMBER 31, 2003: 7,970,532 SHARES

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	December 31, 2003	March 31, 2003
	(Unaudited)	(Audited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,222	$ 1,459
Accounts receivable, less allowance for doubtful accounts of $853 and $892	12,337	6,579
Inventories	9,900	12,009
Prepaids and other assets	2,366	2,261
TOTAL CURRENT ASSETS	26,825	22,308
PROPERTY AND EQUIPMENT	6,678	6,606
OTHER ASSETS:		
Deferred income tax asset	5,700	5,700
Trademark and goodwill	3,796	3,796
Software development costs	2,409	2,026
Other assets	4,488	4,378
TOTAL OTHER ASSETS	16,393	15,900
TOTAL ASSETS	$ 49,896	$ 44,814
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 11,733	$ 10,600
Current portion of long-term liabilities Other	126	47
TOTAL CURRENT LIABILITIES	11,859	10,647
LONG-TERM LIABILITIES:		
Revolving credit facility	7,210	6,134
Other liabilities	1,190	1,308
TOTAL LONG-TERM LIABILITIES	8,400	7,442

SHAREHOLDERS EQUITY:		
Preferred stock, $2.50 par value, authorized 10,000,000 shares, 4,579 and 4,153 issued and outstanding ($4,579 and $4,153 liquidation value)	4,557	4,131
Common stock, $0.01 par value, authorized 50,000,000 shares, issued and outstanding, 7,970,532 and 7,946,282 shares	80	79
Additional paid in capital	49,978	49,943
Accumulated deficit	(24,351)	(26,340)
Foreign currency translation adjustment	(627)	(1,088)
TOTAL SHAREHOLDERS EQUITY	29,637	26,725
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 49,896	$ 44,814

See notes to consolidated financial statements.

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands, except for per share data)

(unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2003	**2002**	**2003**	**2002**
SALES	$ 18,873	$ 18,764	$ 49,527	$ 56,335
COST OF SALES	9,636	10,302	25,774	30,973
GROSS MARGIN	9,237	8,462	23,753	25,362
EXPENSES:				
Sales and marketing	4,961	4,858	13,285	13,655
Research and development	867	833	2,270	2,376
General and administrative	1,851	1,950	5,095	5,362
Total operating expenses	7,679	7,641	20,650	21,393
OPERATING INCOME	1,558	821	3,103	3,969
Interest expense	(137)	(191)	(403)	(594)
Interest and investment income (loss)	(266)	(155)	(535)	(340)
Other, net	175	87	213	243
INCOME BEFORE INCOME TAXES	1,330	562	2,378	3,278
INCOME TAX PROVISION (BENEFIT)	(58)	(966)	(37)	(966)
NET INCOME	1,388	1,528	2,415	4,244
PREFERRED STOCK DIVIDEND	218	198	426	386
INCOME APPLICABLE TO COMMON SHAREHOLDERS	$ 1,170	$ 1,330	$ 1,989	$ 3,858
INCOME PER COMMON SHARE:				
Basic	$ 0.15	$ 0.17	$ 0.25	$ 0.49
Diluted	$ 0.14	$ 0.17	$ 0.24	$ 0.48
WEIGHTED AVERAGE COMMON SHARES:				
Basic	7,971	7,946	7,962	7,947
Diluted	8,343	8,017	8,328	8,037

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		Additional	Preferred Stock		Accumulated	Accumulated Other Comprehensive	Total Shareholders
	Shares	Amount	Paid in Capital	Shares	Amount	Deficit	Income*	Equity
BALANCE - MARCH 31, 2003	7,946,282	$ 79	$ 49,943	4,153	$ 4,131	$ (26,340)	$ (1,088)	$ 26,725
Issuance of common shares under employee stock option plan	24,250	1	35					36
Preferred stock dividend				426	426	(426)		
Income for the period						2,415		2,415
Foreign currency translation adjustment							461	461
BALANCE - DECEMBER 31, 2003 (unaudited)	7,970,532	$ 80	$ 49,978	4,579	$ 4,557	$ (24,351)	$ (627)	$ 29,637

* Comprehensive income, i.e., net income, plus, or less, the change in foreign currency balance sheet translation adjustments, totaled $2,876 for the nine months ended December 31, 2003.

See notes to consolidated financial statements.

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended December 31,	
	2003	**2002**
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME	$ 2,415	$ 4,244
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Depreciation and amortization	2,443	2,421
Provision for losses on accounts receivable	137	121
Loss (gain) on disposal of property and equipment	(5)	13
Equity earnings of associated companies	(55)	
Stock issued for services		45
Source (use) of cash from change in operating assets and liabilities:		
Accounts receivable	(5,895)	(7,327)
Inventories	2,109	(870)
Prepaids and other assets	(98)	896
Accounts payable and accrued expenses	1,136	297
Income tax refund receivable		(999)
Other, net	(38)	(60)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	2,149	(1,219)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(832)	(445)
Proceeds from sale of property and equipment	25	10
Software development costs	(1,261)	(549)
Investment in MobiPocket	(527)	
Change in other assets	(323)	(482)
NET CASH USED IN INVESTING ACTIVITIES	(2,918)	(1,466)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolving credit facility	1,076	3,433
Proceeds from issuance of common shares	35	
Other liabilities	(40)	(1)
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,071	3,432
EFFECT OF EXCHANGE RATE CHANGES ON CASH	461	182
INCREASE IN CASH AND CASH EQUIVALENTS	763	929
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,459	2,497
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 2,222	$ 3,426

See notes to consolidated financial statements.

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, in thousands)

Reference is made to the financial statements included in the Company s Annual Report (Form 10-K) filed with the Securities and Exchange Commission for the year ended March 31, 2003.

The financial statements for the periods ended December 31, 2003 and 2002 are unaudited and include all adjustments necessary to a fair presentation of the results of operations for the periods then ended. All such adjustments are of a normal recurring nature. The results of the Company s operations for any interim period are not necessarily indicative of the results of the Company s operations for a full year.

OPERATIONS

Under Statement of Financial Accounting Standards 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 are as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
Product Sales	**2003**	**2002**	**2003**	**2002**
Reference	$ 15,996	$ 14,874	$ 41,520	$ 46,913
ROLODEX® Electronics	1,457	2,043	3,915	5,912
eBookMan	97	1,583	306	2,436
Seiko	1,118		3,105	
Other	205	264	681	1,074
Total Sales	$ 18,873	$ 18,764	$ 49,527	$ 56,335

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
Product Sales	**2003**	**2002**	**2003**	**2002**

Europe	$ 4,697	$ 4,962	$ 9,887	$ 10,672
Other International	2,266	1,952	5,053	4,443

For the three and nine month periods ended December 31, 2003 and 2002, no customer accounted for more than 10% of the Company s revenues.

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, in thousands)

MOBIPOCKET

In April 2003, the Company purchased 25% of the outstanding shares of MobiPocket.com S.A. for approximately $525 including expenses. MobiPocket, through its software reader application, enables the reading and secured distribution of electronic content across all the major OS platforms, including Palm OS, Pocket PC OS, Symbian OS, Windows OS and the Company s proprietary operating systems.

This transaction was accounted for by the purchase method of accounting. The Company will account for the ongoing results of MobiPocket by the equity method of accounting. Through the quarter ended December 31, 2003 the Company recognized income of $56 on its investment in MobiPocket. This amount is included in the caption Other, net on the Company s statement of operations.

CHANGE IN PAR VALUE OF COMMON STOCK

During the quarter ended September 30, 2003 the Company changed the par value of its common stock from no par value per share to $.01 par value per share. The change in par value did not result in an increase or decrease in the number of shares issued.

RECENT ACCOUNTING PRONOUNCEMENTS

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, Consolidation of Variable Entities (FIN 46), an interpretation of Accounting Research Bulletin No. 51. FIN 46 requires that variable interest entities be consolidated by a company if that company is subject to a majority of the risk and loss from the variable interest entity s activities or is entitled to receive a majority of the entity s residual returns or both. FIN 46 requires disclosures about variable interest entities that companies are not required to consolidate but in which the company has a significant variable interest. The consolidation requirements will apply immediately for newly formed variable interest entities created after January 31, 2003 and for entities established prior to January 31, 2003, in the first fiscal year or interim period beginning after June 30, 2003. The adoption of FIN 46 did not have a material impact on our financial statements.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities (SFAS 149), an amendment to Statement of Financial Accounting Standards No. 133. SFAS 149 clarifies under what circumstances a contract with initial investments meets the characteristics of a derivative and when a derivative contains a financing component. SFAS 149 was effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS 149 did not have a material impact on our financial statements.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity (SFAS 150), which established standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) because that financial instrument embodies an obligation of the issuer. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. It is to be implemented by reporting the cumulative effect of a change in accounting principle for financial instruments created before the issuance date of SFAS 150 and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The adoption of SFAS 150 did not have a material effect on our financial statements.

RECLASSIFICATIONS

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

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

RESULTS OF OPERATIONS

Three months ended December 31, 2003 compared with three months ended December 31, 2002:

Net Sales

Sales of $18,873 for the quarter ended December 31, 2003, increased by $109 from sales of $18,764 for the same quarter last year. The higher sales in the quarter were primarily attributable to increased reference product sales of $1,122 and revenue of $1,118 from the sales of Seiko® products which the Company began distributing in April 2003. These increases were partially offset by a decline in ROLODEX ® Electronics products sales of $586 and eBookMan closeout sales of $1,486. The increase in reference product sales was mainly due to higher sales in the US Consumer market of $1,112 due to a shift of orders from certain key customers from the second to third fiscal quarters in the current year. At the same time, sales of ROLODEX ® Electronics products to US retailers declined by $568 due to weakness in the electronic organizer market.

Gross Margin

The gross margin percentage increased to 49% of sales in the current quarter from 45% in the quarter ended December 31, 2002 resulting in increased margin dollars of $726. The higher margin percentage is primarily attributable to results of the Company s European subsidiaries, as their revenue benefited from the strengthening Euro and British pound while their cost of sales remained fixed in US dollars. The margin percentage also improved from a shift in the Company s sales mix with lower margin ROLODEX® Electronics and eBookMan products accounting for only 8% of sales in the current quarter compared with 19% in the prior year quarter.

Operating Expenses

Total operating expenses increased slightly to $7,679 in the current quarter from $7,641 in the same period last year. Sales and marketing expense increased to $4,961 (26% of sales) from $4,858 (26% of sales) last year. Decreased advertising expense of $231 in the current quarter was offset by higher personnel costs of $151 and the reversal in the prior year, upon settlement, of a tax accrual related to prior year s operations in Belgium of approximately $200. Research and development expense increased by $34 to $867 (4.6% of sales) from $833 (4.4% of sales) last year. Higher consulting expense of $108 and increased personnel costs of $88 were substantially offset by an increase in software capitalization of $167 resulting from the reassignment of personnel to the software development function. Total software capitalization for the quarter was $350 of which $302 was related to the Company s new Unified Architecture project. General and administrative expense decreased by $99 to $1,851 (10% of sales) compared with $1,950 (10% of sales) in the prior year due to lower consulting and legal fees of $116 and $259 respectively offset in part by increased personnel costs of $209.

Interest Expense

Interest expense declined to $137 in the current period from $191 last year because of lower amounts of debt outstanding.

Interest and Investment Income (Loss)/Other Net

Interest and investment income (loss) and other, net combined for a loss of $91 for the quarter ended December 31, 2003 compared with a loss of $68 in the same period last year. The increased loss is primarily the result of increased losses on the Company s currency hedging program of $76 and lower interest income of $32 offset in part by income of $56 on the Company s investment in MobiPocket and an increase of $31 in gains on the repatriation of funds from the Company s foreign subsidiaries.

The Company maintains a program of selling Euros at current rates for future settlement in order to protect the dollar value of sales generated by foreign subsidiaries. Gains or losses on these contracts are offset primarily by the effect of the foreign exchange rate changes on the underlying transactions.

Net Income

Income before income tax for the quarter ended December 31, 2003 increased to $1,330 from $562 in the same period last year primarily due to improved gross margin (reflecting stronger foreign currencies and improved product mix) and lower interest expense. Net income decreased by $140 to $1,388 in the current period from $1,528 in the prior year as the prior year had the benefit of an income tax recovery of $966 while the current year s quarter benefited from improved gross margin and lower interest expense.

Nine months ended December 31, 2003 compared with nine months ended December 31, 2002:

Net Sales

Sales of $49,527 for the nine months ended December 31, 2003, decreased by $6,808 (12%) from sales of $56,335 for the same period last year. Last year s sales benefited from revenue of $1,573 from the extension of a three-year software licensing agreement and higher eBookMan closeout sales of $2,130. The remainder of the sales decrease in the nine months ended December 31, 2003 is primarily attributable to lower sales to US retailers of reference and ROLODEX ® Electronics products of $3,814 and $1,972 respectively, partially offset by sales of $3,105 of Seiko® products which the Company began distributing in April 2003.

Gross Margin

While the gross margin percentage for the nine months ended December 31, 2003 increased to 48% of sales from 45% of sales in the prior year, margin dollars decreased by $1,609 to $23,753 in the current year from $25,362 in the prior year. The higher percentage resulted in additional gross margin of $1,456, which was more than offset by the decrease of $3,065 of margin due to the decrease in sales from the prior year. The higher margin percentage is primarily attributable to the Company s European subsidiaries as their revenues benefited from the strengthening Euro and British pound while their cost of sales remained fixed in US dollars.

Operating Expenses

Total operating expenses decreased by $743 to $20,650 in the nine months ended December 31, 2003 from $21,393 in the prior year. Sales and marketing expense decreased by $370 to $13,285 (27% of sales) from $13,655 (24% of sales) as variable selling expenses such as commissions, cooperative advertising and freight decreased by $164, $442 and $273 respectively due to lower sales and consulting expense decreased by $98 due primarily to higher market research expense in the prior year. These decreases were partially offset by higher trade advertising and promotions of $140 and higher personnel costs of $277 in the current year. In addition, the prior year benefited from the reversal, upon settlement, of a tax accrual related to prior year s operations in Belgium of approximately $200. Research and development expense for the nine months ended December 31, 2003 declined by $106 from $2,376 (4% of sales) to $2,270 (5% of sales) due to the reassignment of personnel to the software development function which increased software capitalization by $712 to $1,261 of which $762 related to the Company s new Unified Architecture project. The higher software capitalization was partially offset by an actual spending increase of $604 primarily due to higher personnel costs of $323 and increased consulting expense of $301. General and administrative expense decreased by $267 to $5,095 (10% of sales) compared with $5,362 (10% of sales) in the prior year due to lower consulting expense of $259 (primarily related to the Company s ERP system), lower legal expense of $297 and reduced travel expense of $128 offset in part by increased personnel cost of $444.

Interest Expense

Interest expense declined to $403 in the current period from $594 last year because of lower amounts of debt outstanding and a reduction in interest rates.

Interest and Investment Income (Loss)/Other Net

Interest and investment income (loss) and other net combined for a loss of $322 compared with a loss of $97 in the same period last year. The current year loss is due primarily to a loss of $560 on the Company s currency hedging program partially offset by gains of $148 on the repatriation of funds from the Company s foreign subsidiaries and income of $56 from the Company s 25% investment in MobiPocket. The prior year loss included a loss on hedging of $627 which was partially offset by interest income of $266 on income tax refunds, gains of $137 on the repatriation of funds from the Company s foreign subsidiaries and a gain of $100 on the Company s sale of its controlling interest in VPTI.

The Company maintains a program of selling Euros at current rates for future settlement in order to protect the dollar value of sales generated by foreign subsidiaries. Gains or losses on these contracts are offset primarily by the effect of the foreign exchange rate changes on the underlying transactions.

Net Income

Income before income tax decreased to $2,378 from $3,278 in the prior year primarily due to the inclusion in the prior year of $1,377 of software licensing margin, interest income of $266 on tax refunds and a gain of $100 on the Company s sale of its controlling interest in VPTI offset in part by lower operating expenses of $743, improved gross margin percentage and reduced interest expense. Net income decreased to $2,415 in the current period from $4,244 in the prior year as the prior year benefited from an income tax recovery of $966 in addition to the items previously mentioned.

Changes in Financial Condition

Accounts receivable increased by $5,758 to $12,337 on December 31, 2003 from $6,579 on March 31, 2003 primarily because of a seasonal increase in sales of $9,616 during the December 2003 quarter compared with the March 2003 quarter. Inventory decreased by $2,109 to $9,900 on December 31, 2003 from $12,009 on March 31, 2003 due primarily to the implementation of the Company s planned inventory reduction program. Compared with December 31, 2002, inventory decreased by $2,076. Accounts payable and the balance of the Company s borrowings under its credit facility increased by $1,133 and $1,076 respectively, from March 31, 2003 because of seasonal inventory and cash requirements.

Liquidity and Capital Resources

The Company has a $25,000 secured financing facility with a commercial lender which expires on December 7, 2004. Borrowings under the revolving credit facility bear interest at the bank s prime rate (4.0% at December 31, 2003) plus ¾% and the real property and equipment advances under the facility in the amount of $3,346 bear interest at the rate of prime plus 1½%. The facility contains certain financial covenants and restrictions on indebtedness, dividend payments, business combinations and other similar matters. As of December 31, 2003 no amounts were available for payment of dividends. Borrowings are collateralized by substantially all assets of the Company. As of December 31, 2003 the Company had an aggregate outstanding balance of $7,210 under the facility and remains in compliance with all covenants.

The Company relies primarily on its revolving credit facility to supplement operating cash flow to meet its financing needs. The amount of credit available under the facility at any time is based upon a formula applied to the Company s accounts receivable, inventory, real estate, and certain capital equipment. As of December 31, 2003, there was credit available of $12,431, of which $7,210 was drawn down and $5,221 was available. The Company s credit availability and borrowings under the facility fluctuate during the year because of the seasonal nature of the business. During the nine months ended December 31, 2003, maximum availability and borrowings under the facility approximated $17,000 and $11,000 respectively. The Company does not have any significant capital leases and anticipates that depreciation and amortization for fiscal 2005 will exceed planned capital expenditures.

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.

This 2003 Quarterly Report on Form 10-Q may contain statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Those statements include statements regarding the intent and belief or current expectations of the Company and its management team. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements. Such risks and uncertainties include, among other things, the 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, the Company 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 herein, and from time-to-time, in the Company s other reports filed with the Securities and Exchange Commission. Franklin undertakes no obligation to publicly update any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

Critical Accounting Policies and Estimates

Management s discussion and analysis of financial condition and results of operations are based upon the Company s consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. On an ongoing basis, the Company evaluates its estimates and judgments based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The Company annually reviews its financial reporting and disclosure practices and accounting policies to ensure that its financial reporting and disclosures provide accurate and transparent information relative to the current economic and business environment. The Company believes that of its significant accounting policies, the following policies involve a higher degree of judgment and/or complexity:

Asset Impairment In assessing the recoverability of the Company s fixed assets, goodwill and other non-current assets, the Company considers changes in economic conditions and makes assumptions regarding estimated future cash flows and other factors. During the year ended March 31, 2002, the Company recorded a charge for impairment in value of its ROLODEX® Electronics trademark of approximately $11,100.

The Company adopted SFAS No. 142 at the beginning of April 2002 for all goodwill and other intangible assets recognized in the Company s statement of financial position as of April 1, 2002. This standard changes the accounting for goodwill from an amortization method to an impairment-only approach and introduces a new model for determining impairment charges. The Company s intangible assets are carried at the lower of cost less amortization through March 31, 2002, or fair value as of March 31, 2003. The implementation of this standard reduced amortization expense by approximately $300 for the year ended March 31, 2003. The Company no longer amortizes goodwill.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

There were no material changes from the information presented in Item 7A of the Company s Annual Report on Form 10-K for the year ended March 31, 2003, which is hereby incorporated by reference, with respect to the Company s quantitative and qualitative disclosures about market risks.

ITEM 4. CONTROLS AND PROCEDURES

As of December 31, 2003 (the end of the period covered by this report), the Company s management carried out an evaluation, with the participation of the Company s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company s disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including the Company s subsidiaries) required to be included in periodic reports filed under the Securities Exchange Act of 1934.

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

No change occurred in the Company s internal controls concerning financial reporting during the quarter ended December 31, 2003 that has materially affected, or is reasonably likely to materially affect, the Company s internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company settled in October 2003 the litigation in Belgium brought one year earlier that was based on a third party claim against its local operating subsidiary relating to the sale of certain products incorporating medical databases. The claimant had asked for injunctive relief and damages approximating 2.8 million euros. As a result of the settlement, all claims against the Company and its operating subsidiary have been released without payment of any settlement amount by the Company and the claimant has agreed to pay 14,950 euros to the Company in consideration for the Company s provision of four quarterly updates to such medical databases.

The Company is subject to other 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 5. OTHER INFORMATION

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

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

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

* Filed herewith

(b) Reports on Form 8-K

The Company filed a Form 8-K on November 12, 2003, in connection with a press release dated November 7, 2003 announcing earnings for the quarter ended September 30, 2003.

SIGNATURES

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

	FRANKLIN ELECTRONIC PUBLISHERS,
	INCORPORATED
Date: February 13, 2004	/s/ Barry J. Lipsky
	Barry J. Lipsky
	President and Chief Executive Officer
	(Duly Authorized Officer)
Date: February 13, 2004	/s/ Arnold D. Levitt
	Arnold D. Levitt
	Senior Vice President
	Chief Financial Officer, and Treasurer
	(Principal Financial and Accounting Officer)