

FRANKLIN ELECTRONIC PUBLISHERS INC  
Form 10-Q  
November 14, 2006  
Table of Contents

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D. C. 20549**

**FORM 10-Q**

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

For the quarterly period ended: September 30, 2006

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-13198

**FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED**

(Exact Name of Registrant as Specified in Its Charter)

**Pennsylvania**

**22-2476703**

(State or other Jurisdiction of

(I.R.S. Employer

Incorporation or Organization)

Identification No.)

**One Franklin Plaza, Burlington, New Jersey**

**08016-4907**

(Address of Principal Executive Office)

(Zip Code)

**(609) 386-2500**

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether 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  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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

OUTSTANDING AS OF NOVEMBER 8, 2006: **8,217,921**

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**Table of Contents**

**FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED**

**FORM 10-Q**

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006**

	<b>Page</b>
<b><u>Part I. Financial Information</u></b>	
<b><u>Item 1. Financial Statements</u></b>	3
<u>Consolidated Balance Sheets as of September 30, 2006 and March 31, 2006</u>	3
<u>Consolidated Statements of Operations for the Three and Six Month periods ended September 30, 2006 and 2005</u>	4
<u>Consolidated Statement of Shareholders' Equity for the Six Months Ended September 30, 2006</u>	5
<u>Consolidated Statement of Cash Flows for the Six Months Ended September 30, 2006 and 2005</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	12
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	18
<b><u>Item 4. Controls and Procedures</u></b>	18
<b><u>Part II. Other Information</u></b>	18
<b><u>Item 1. Legal Proceedings</u></b>	18
<b><u>Item 1A. Risk Factors</u></b>	19
<b><u>Item 4. Submission of Matters to a Vote of Security Holders</u></b>	19
<b><u>Item 5. Other Information</u></b>	19
<b><u>Item 6. Exhibits</u></b>	19
<b><u>Signatures</u></b>	20

**Table of Contents**

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

**FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED****AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

(unaudited)

	September 30, 2006	March 31, 2006
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 2,033	\$ 3,710
Short-term investments	4,108	6,981
Accounts receivable, less allowance for doubtful accounts of \$314 and \$280	9,565	6,717
Inventories	12,608	7,492
Prepays and other assets	1,829	1,637
<b>TOTAL CURRENT ASSETS</b>	<b>30,143</b>	<b>26,537</b>
<b>PROPERTY AND EQUIPMENT</b>	<b>1,654</b>	<b>1,607</b>
<b>OTHER ASSETS:</b>		
Deferred income tax asset	5,700	5,700
Trademark and goodwill	3,160	2,265
Software development costs	3,368	3,642
Other assets	2,948	3,270
<b>TOTAL OTHER ASSETS</b>	<b>15,176</b>	<b>14,877</b>
<b>TOTAL ASSETS</b>	<b>\$ 46,973</b>	<b>\$ 43,021</b>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 12,375	\$ 8,338
Revolving credit facility	2,000	
Current portion of long-term liabilities - Other	130	77
<b>TOTAL CURRENT LIABILITIES</b>	<b>14,505</b>	<b>8,415</b>
<b>OTHER LIABILITIES</b>	<b>1,129</b>	<b>1,136</b>
<b>DEFERRED REVENUE</b>	<b>686</b>	<b>740</b>
<b>DEFERRED GAIN ON SALE AND LEASEBACK</b>	<b>4,255</b>	<b>4,478</b>
<b>SHAREHOLDERS' EQUITY:</b>		

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Common stock, \$0.01 par value, authorized 50,000,000 shares, issued and outstanding, 8,217,921 and 8,209,771 shares	82	82
Additional paid in capital	50,675	50,650
Retained earnings (deficit)	(23,376)	(21,439)
Foreign currency translation adjustment	(983)	(1,041)
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>26,398</b>	<b>28,252</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 46,973</b>	<b>\$ 43,021</b>

See notes to consolidated financial statements.

**Table of Contents****FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED****AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF OPERATIONS**

(in thousands, except for per share data)

(unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2006	2005	2006	2005
<b>SALES</b>	\$ 12,276	\$ 13,898	\$ 24,061	\$ 31,550
<b>COST OF SALES</b>	6,740	7,155	13,203	16,209
<b>GROSS MARGIN</b>	5,536	6,743	10,858	15,341
<b>EXPENSES:</b>				
Sales and marketing	3,862	4,127	7,527	8,650
Research and development	1,131	861	2,096	2,005
General and administrative	1,606	1,595	3,295	3,601
Total operating expenses	6,599	6,583	12,918	14,256
<b>OPERATING INCOME (LOSS)</b>	(1,063)	160	(2,060)	1,085
Interest expense, net	56	(77)	165	(88)
Other, net	113	83	14	102
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	(894)	166	(1,881)	1,099
<b>INCOME TAX PROVISION</b>	4	42	56	77
<b>NET INCOME (LOSS)</b>	(898)	124	(1,937)	1,022
<b>PREFERRED STOCK DIVIDEND</b>				122
<b>INCOME (LOSS) APPLICABLE TO COMMON SHAREHOLDERS</b>	\$ (898)	\$ 124	\$ (1,937)	\$ 900
<b>INCOME (LOSS) PER COMMON SHARE:</b>				
Basic	\$ (0.11)	\$ 0.02	\$ (0.24)	\$ 0.11
Diluted	\$ (0.11)	\$ 0.01	\$ (0.24)	\$ 0.11
<b>WEIGHTED AVERAGE COMMON SHARES:</b>				
Basic	8,218	8,152	8,217	8,139
Diluted	8,218	8,661	8,217	8,559

See notes to consolidated financial statements.

Table of Contents

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

	Common Stock				Accumulated		Total
	Shares	Amount	Paid in Capital	Earnings	Other	Shareholders	
					Comprehensive		
<b>BALANCE MARCH 31, 2006</b>	8,209,771	\$ 82	\$ 50,650	\$ (21,439)	\$ (1,041)	\$ 28,252	
Issuance of common shares and amortization of deferred compensation expense for shares issued for services	5,450		9			9	
Issuance of common shares under employee stock option plan	2,700		3			3	
Value of stock options granted			13			13	
Income (loss) for the period				(1,937)		(1,937)	
Foreign currency translation adjustment					58	58	
<b>BALANCE SEPTEMBER 30, 2006 (unaudited)</b>	8,217,921	\$ 82	\$ 50,675	\$ (23,376)	\$ (983)	\$ 26,398	

\* Comprehensive income, i.e., net loss, plus, or less, the change in foreign currency balance sheet translation adjustments, totaled \$1,879 for the six months ended September 30, 2006.

See notes to consolidated financial statements.

**Table of Contents****FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED****AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF CASH FLOWS****(in thousands)****(unaudited)**

	<b>Six Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
NET INCOME (LOSS)	\$ (1,937)	\$ 1,022
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Depreciation and amortization	1,675	1,308
Provision for losses on accounts receivable	67	67
Gain on disposal of property and equipment	(34)	(5)
Stock issued for services	14	
Source (use) of cash from change in operating assets and liabilities:		
Accounts receivable	(2,875)	(4,720)
Inventories	(5,117)	(2,638)
Prepays and other assets	(171)	1,097
Accounts payable and accrued expenses	3,591	1,450
Deferred revenue	54	860
Other, net	(8)	4
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(4,741)</b>	<b>(1,555)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(515)	(385)
Proceeds from sale of property and equipment	49	5
Investment in Kreutzfeldt Electronic Publishing	(810)	
Software development costs	(479)	(944)
Short term investments	2,873	
Change in other assets	(119)	(75)
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>999</b>	<b>(1,399)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from revolving credit facility	2,000	3,000
Cash dividends on preferred stock		(122)
Proceeds from issuance of common shares	3	180
Other liabilities	4	(38)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>2,007</b>	<b>3,020</b>