

FRANKLIN ELECTRONIC PUBLISHERS INC
Form 10-Q
February 14, 2003

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For Quarter ended December 31, 2002

Commission File No. 0-14841

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

(Exact name of Registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of incorporation or organization)

22-2476703
(I.R.S. Employer Identification No.)

One Franklin Plaza, Burlington, New Jersey 08016-4907

(Address of principal executive office)

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

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

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

Yes No

**COMMON STOCK OUTSTANDING AS OF
DECEMBER 31, 2002 7,946,282 SHARES**

PART 1. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED****AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

	<u>December 31,</u> 2002	<u>March 31,</u> 2002
	(Unaudited)	(Audited)
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,426	\$ 2,497
Accounts receivable, less allowance for doubtful accounts of \$1,059 and \$1,112	14,138	6,932
Inventories	11,976	11,107
Income tax receivable	999	809
Prepays and other assets	2,268	2,354
	<u> </u>	<u> </u>
TOTAL CURRENT ASSETS	32,807	23,699
	<u> </u>	<u> </u>
PROPERTY AND EQUIPMENT	6,627	6,988
	<u> </u>	<u> </u>
OTHER ASSETS:		
Deferred income tax asset	5,700	5,700
Trademark and goodwill	3,796	3,796
Advance royalties and licenses	670	580
Software development costs	2,142	2,583
Other assets	3,760	3,956
	<u> </u>	<u> </u>
TOTAL OTHER ASSETS	16,068	16,615
	<u> </u>	<u> </u>
TOTAL ASSETS	\$ 55,502	\$ 47,302
	<u> </u>	<u> </u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 11,707	\$ 11,409
Current portion of long-term liabilities Other	126	35

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TOTAL CURRENT LIABILITIES	11,833	11,444
LONG-TERM LIABILITIES:		
Revolving credit facility	13,570	10,138
Other liabilities	1,320	1,412
TOTAL LONG-TERM LIABILITIES	14,890	11,550
SHAREHOLDERS' EQUITY:		
Preferred stock, \$2.50 par value, authorized 10,000,000 shares, 4,153 and 3,767 issued and outstanding (\$3,955 and \$3,767 liquidation value)	4,131	3,745
Common stock, no par value, authorized 50,000,000 shares, issued and outstanding, 7,946,282 and 7,946,882 shares	50,022	49,978
Retained earnings (deficit)	(24,397)	(28,255)
Foreign currency translation adjustment	(977)	(1,160)
TOTAL SHAREHOLDERS' EQUITY	28,779	24,308
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 55,502	\$ 47,302

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,	
	2002	2001	2002	2001
SALES	\$ 18,764	\$ 23,284	\$ 56,335	\$ 58,007
COST OF SALES	10,302	12,367	30,973	33,944
WRITE-DOWN ON EBOOKMAN INVENTORY				2,898
TOTAL COST OF SALES	10,302	12,367	30,973	36,842
GROSS MARGIN	8,462	10,917	25,362	21,165
EXPENSES:				
Sales and marketing	4,858	5,926	13,655	16,974
Research and development	833	1,307	2,376	3,565
General and administrative	1,950	1,614	5,362	5,163
Total operating expenses	7,641	8,847	21,393	25,702
OPERATING INCOME (LOSS)	821	2,070	3,969	(4,537)
Interest expense	(191)	(493)	(594)	(1,308)
Interest and investment income	(155)	52	(340)	(108)
Other, net	87	(247)	243	(497)
INCOME (LOSS) BEFORE INCOME TAXES	562	1,382	3,278	(6,450)
INCOME TAX PROVISION (BENEFIT)	(966)		(966)	
NET INCOME (LOSS)	1,528	1,382	4,244	(6,450)
PREFERRED STOCK DIVIDEND	198	179	386	267
NET INCOME (LOSS) APPLICABLE TO COMMON SHAREHOLDERS	\$ 1,330	\$ 1,203	\$ 3,858	\$ (6,717)

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NET INCOME (LOSS) PER COMMON SHARE:

Basic	\$ 0.17	\$ 0.15	\$ 0.49	\$ (0.85)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Diluted	\$ 0.17	\$ 0.15	\$ 0.48	\$ (0.85)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

WEIGHTED AVERAGE COMMON SHARES:

Basic	7,946	7,948	7,947	7,949
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Diluted	8,017	7,948	8,037	7,949
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

See notes to consolidated financial statements.

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

<u>Common Stock</u>	<u>Preferred Stock</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income *</u>
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