FRANKLIN ELECTRONIC PUBLISHERS INC
Form PRER14A
January 06, 2010
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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant To Section 14(A) of

The Securities Exchange Act of 1934 (Amendment No. 1)

Filed by the Registrant þ

Filed by a Party other than the Registrant ¨

Check the appropriate box:

þ Preliminary Proxy Statement
¨ Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material under § 240.14a-12

¨ **Confidential, for Use of the Commission Only as permitted by Rule 14a-6(e)(2))**

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than Registrant)

Payment of Filing Fee (Check the appropriate box):

¨ No fee required.

þ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:
Common stock, par value $.01 per share of Franklin Electronic Publishers, Incorporated (Common Stock).

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(2) Aggregate number of securities to which transaction applies:
5,645,173 shares of Common Stock (excluding shares of Common Stock Saunders Acquisition Corporation will acquire prior to the merger) and vested options to purchase 511,097 shares of Common Stock as of November 18, 2009 with a per share exercise price of less than $2.50.

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

The filing fee was determined by multiplying $55.80/$1,000,000 by the sum of: (i) the product of (a) 5,645,173 outstanding shares of Common Stock that are proposed to be acquired in the merger and (b) the per share merger consideration of $2.50 in cash; and (ii) the product of (a) 511,097 shares of Common Stock issuable upon exercise of outstanding vested options to purchase Common Stock with a per share exercise price of less than $2.50 and (b) $1.13 per share in consideration for the cancellation of such options, which is the excess of $2.50 over the weighted average exercise price of such options.

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(4) Proposed maximum aggregate value of transaction: $14,690,472.11

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(5) Total fee paid: $819.79

þ Fee paid previously with preliminary materials.

¨ Check box if any of the fee is offset as provided by Exchange Act Rule 0-11(a) (2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

One Franklin Plaza Burlington, New Jersey 08016

MERGER PROPOSED YOUR VOTE IS IMPORTANT

Dear Shareholder:

You are cordially invited to attend a special meeting of the shareholders of Franklin Electronic Publishers, Incorporated, which we refer to as Franklin or the Company, to be held at the offices of Katten Muchin Rosenman LLP, 575 Madison Avenue, New York, New York 10022, th floor, conference room , on , 2010 at 10:00 a.m., local time.

At the special meeting, we will ask you to consider and vote upon a proposal to adopt the merger agreement, dated as of September 30, 2009, by and between Saunders Acquisition Corporation, which we refer to as Saunders, and the Company, and the related plan of merger, providing for the merger of Saunders with and into the Company, and a proposal to adjourn or postpone the special meeting if the Company determines such is necessary or appropriate. Saunders is controlled by Barry J. Lipsky, our President and Chief Executive Officer, Toshihide Hokari, our Chief Operating Officer, Frank A. Musto, our Chief Financial Officer, Howard L. Morgan, the Chairman of our board of directors and James A. Simons, a director of the Company.

If our shareholders adopt the merger agreement and the related plan of merger, if the other conditions to the merger contemplated thereby are satisfied, and if the merger is completed, then Saunders will merge with and into Franklin, and all shareholders other than Saunders will be entitled to receive $2.50 in cash, without interest, for each share of our common stock owned, which we refer to as the merger consideration.

A special committee of Franklin s board of directors unanimously approved the merger agreement and the related plan of merger and determined the merger advisable, fair to and in the best interests of Franklin and Franklin s shareholders. The special committee consists entirely of directors who are not officers or employees of Franklin, and who will not have an economic interest in Franklin following the merger. In connection with its evaluation of the merger agreement, the special committee considered, among other factors, the written opinion, dated September 30, 2009, of Oppenheimer & Co. Inc. (Oppenheimer), its independent financial advisor, to the effect that, as of the date of such opinion, the merger consideration of $2.50 per share to be received by holders of Franklin common stock (other than Saunders) was fair to such shareholders from a financial point of view. The full text of Oppenheimer s opinion is attached to the enclosed proxy statement as Annex C. Franklin s board of directors (excluding Barry J. Lipsky, Howard L. Morgan and James H. Simons, who recused themselves from the process and did not vote due to their conflicting interests), acting upon the recommendation of the special committee, determined that the merger is advisable and in the best interests of the Company, approved the merger agreement and the related plan of merger, and determined the merger consideration to be fair to the shareholders of the Company (other than Saunders).

The board of directors recommends that Franklin s shareholders vote FOR the adoption of the merger agreement and the related plan of merger and FOR the proposal to adjourn or postpone the special meeting if the Company determines such is necessary or appropriate.

The proxy statement attached to this letter provides a detailed description of the merger, the merger agreement and the plan of merger. We urge you to read the proxy statement and its annexes carefully.

The affirmative vote of a majority of the votes cast at the special meeting is required to adopt the merger agreement and the related plan of merger. Saunders and certain of its shareholders collectively hold approximately 40.38% of the outstanding shares of our common stock.

Your vote is very important regardless of the number of shares you own. Whether or not you plan to attend the special meeting in person, please complete, date and sign the enclosed proxy card and return it in the envelope provided as soon as possible. No postage need be affixed if you mail the proxy card in the enclosed

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envelope anywhere in the United States. If you receive more than one proxy card because you own shares that are registered differently, please vote all of your shares shown on all of your proxy cards. If your shares are held in an account at a brokerage firm or bank, you must instruct them on how to vote your shares. If you submit a proxy, that will not prevent you from voting your shares in person if you subsequently choose to attend the special meeting.

Under Pennsylvania law, Franklin shareholders are not entitled to exercise dissenters rights. If the merger agreement and the plan of merger are adopted and the merger is completed, shareholders who voted against the adoption of the merger agreement and the plan of merger will be treated the same as shareholders who voted for the adoption of the merger agreement and the plan of merger and their shares will automatically be converted into the right to receive the merger consideration.

If you have any questions about the merger, please call the Company s proxy solicitor, Regan & Associates, Inc., at (800) 737-3426.

Thank you for your cooperation and your continued support.

Edward H. Cohen

Chairman of the Special Committee of the Board of Directors

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Neither the Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the merger, passed upon the merits or fairness of the merger or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.

THE PROXY STATEMENT IS DATED , 2010 AND IS FIRST BEING

MAILED TO SHAREHOLDERS ON OR ABOUT , 2010.

FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

One Franklin Plaza

Burlington, New Jersey 08016

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

To Be Held On , 2010

To the Shareholders of Franklin Electronic Publishers, Incorporated:

We will hold a special meeting of the shareholders of Franklin Electronic Publishers, Incorporated, a Pennsylvania corporation, which we refer to as Franklin or the Company, to be held at the offices of Katten Muchin Rosenman LLP, 575 Madison Avenue, New York, New York 10022, th floor, conference room , on , 2010 at 10:00 a.m., local time:

1. To act on a proposal to approve and adopt the merger agreement, dated as of September 30, 2009, by and between Saunders Acquisition Corporation, a Delaware corporation, which we refer to as Saunders, and Franklin, and the related plan of merger, pursuant to which Saunders will merge with and into Franklin and each outstanding share of Franklin common stock (other than shares held by Franklin, any of its subsidiaries or Saunders, which shares will be canceled), will be converted into the right to receive $2.50 in cash, without interest, and to approve the merger and related transactions contemplated by the merger agreement and the plan of merger; and

2. To consider and vote upon a proposal to adjourn or postpone the special meeting, for the purpose of soliciting additional proxies or for such other purpose as the Company shall determine; and

3. To transact any other business that may properly come before the special meeting or any adjournment or postponement of the special meeting, including to consider any procedural matters incident to the conduct of the special meeting.

Only holders of record of Franklin common stock as of the close of business on , 2010 are entitled to notice of, and to vote at, the special meeting and any adjournment or postponement of the special meeting. The affirmative vote of a majority of the votes cast at the special meeting is required in order to adopt the merger agreement and the plan of merger, and to approve the proposal to adjourn or postpone the special meeting. Saunders and certain of its shareholders collectively hold approximately 40.38% of the outstanding shares of our common stock.

Your vote is very important regardless of the number of shares you own.

Whether or not you plan to attend the special meeting in person, please complete, date and sign the enclosed proxy card and return it in the envelope provided as soon as possible. No postage need be affixed if the proxy card is mailed in the United States. If you receive more than one proxy card because you own shares that are registered differently, please vote all of your shares shown on all of your proxy cards. If you return a properly signed proxy card but do not indicate how you want to vote, your shares will be voted FOR adoption of the merger agreement and the plan of merger and, within the discretion of the proxies, FOR approval of the adjournment or postponement proposal. If your shares are held in an account at a brokerage firm or bank, you must instruct them on how to vote your shares. Submitting a proxy will not prevent you from voting your shares in person if you subsequently choose to attend the special meeting.

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Franklin s board of directors unanimously recommends that shareholders vote FOR adoption of the merger agreement and the related plan of merger and FOR approval of the adjournment or postponement proposal.

PLEASE DO NOT SEND ANY STOCK CERTIFICATES AT THIS TIME. IF THE MERGER IS COMPLETED, YOU WILL BE SENT INSTRUCTIONS REGARDING THE SURRENDER OF YOUR STOCK CERTIFICATES.

Under Pennsylvania law, Franklin shareholders are not entitled to exercise dissenters rights. If the merger agreement and the plan of merger are adopted and the merger is completed, shareholders who voted against the adoption of the merger agreement and the plan of merger will be treated the same as shareholders who voted for the adoption of the merger agreement and the plan of merger and their shares will automatically be converted into the right to receive the merger consideration.

The enclosed proxy statement provides a detailed description of the merger, the merger agreement, the plan of merger and related matters. We urge you to read the proxy statement and its annexes carefully. If you have any questions about the merger, please call the Company s proxy solicitor, Regan & Associates, Inc., at (800) 737-3426.

By Order of the Board of Directors,

Edward H. Cohen

Chairman of the Special Committee of the Board of Directors

Date: , 2010

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SPECIAL MEETING OF SHAREHOLDERS TO BE HELD ON , 2010:

Our Proxy Statement for the Special Meeting is available at:

http://www.

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Annex D	Annual Report on Form 10-K for the Fiscal Year ended March 31, 2009
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Annex F	Quarterly Report on Form 10-Q for the Fiscal Quarter ended September 30, 2009

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FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

One Franklin Plaza

Burlington, New Jersey 08016

PROXY STATEMENT

SUMMARY TERM SHEET

This summary term sheet highlights selected information from this proxy statement and may not contain all of the information that may be important to you. Accordingly, we encourage you to read carefully this entire proxy statement, its annexes and the documents referred to or incorporated by reference in this proxy statement. We have provided to each shareholder a copy of the documents incorporated by reference along with this proxy statement. You also may obtain the information incorporated by reference in this proxy statement without charge by following the instructions under Where You Can Find More Information beginning on page 57.

In this proxy statement, the terms we, us, our, Franklin and the Company refer to Franklin Electronic Publishers, Incorporated and, where appropriate, its subsidiaries. In this proxy statement we refer to Saunders Acquisition Corporation as Saunders.

The Merger and Related Matters

The Merger. You are being asked to vote to adopt the merger agreement, dated as of September 30, 2009, by and between Saunders and the Company, and the related plan of merger, providing for the acquisition of the Company by Saunders. The merger agreement and the plan of merger provide that Saunders will merge with and into the Company, with the Company as the entity surviving the merger, sometimes referred to in this proxy statement as the surviving corporation. See The Merger Agreement beginning on page 40. A copy of the merger agreement and the plan of merger are attached as Annex A and Annex B, respectively, to this proxy statement.

Parties Involved in the Merger:

Franklin Electronic Publishers, Incorporated, a Pennsylvania corporation, designs, develops, publishes and distributes electronic information on handheld devices, memory media cards, and via internet downloads. We also design, develop, and license to third parties, linguistic technology, such as spelling error detection software in thirty-six languages, for use in application software, electronic products and on the internet.

Saunders Acquisition Corporation is a Delaware corporation which was incorporated on April 13, 2009 by certain executive officers of the Company solely for the purpose of acquiring the Company and consummating the transactions contemplated by the merger agreement and the plan of merger. Saunders has not engaged in any business except as contemplated in the merger agreement. Saunders is currently owned by Barry J. Lipsky, our President and Chief Executive Officer, Toshihide Hokari, our Chief Operating Officer, Frank A. Musto, our Chief Financial Officer, Howard L. Morgan, the Chairman of our board of directors, James A. Simons, a director of the Company, and certain other of the Company s shareholders named immediately below.

See Parties to the Merger beginning on page 16.

Exchange Agreements. Each of Barry J. Lipsky, our President and Chief Executive Officer, Toshihide Hokari, our Chief Operating Officer, Frank A. Musto, our Chief Financial Officer, Howard L. Morgan, the Chairman of our Board of Directors, James H. Simons, a director of the Company, and Marcy Lewis, Shining Sea Limited, Julien David and Morton David, who are shareholders of the

Company, whom we refer to collectively as the Saunders Group, is party to an exchange agreement, which we refer to collectively as the exchange agreements, with Saunders, pursuant to which each such person has exchanged the shares of the Company s common stock they owned (including shares issuable upon the exercise of in-the-money options), collectively referred to as the Rollover Shares, for equity

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securities of Saunders. The equity contribution of the Company s common stock by the persons party to the exchange agreements represents, in the aggregate, approximately 32.69% of the outstanding common stock of the Company at the record date. See Special Factors The Merger Interests of Our Directors and Executive Officers in the Merger beginning on page 36.

Purposes and Reasons for the Merger. One of the purposes of the merger for the Company is to enable its shareholders (other than Saunders) to immediately realize the value of their investment in Franklin through their receipt of the per share merger price of $2.50 in cash, without interest. The purpose of the merger for the Saunders Group is to allow its members, through their equity interests in Saunders, to benefit from any future earnings and growth of Franklin, while simultaneously bearing the risks of such ownership. See Special Factors The Merger Purposes and Reasons for the Merger and Plans for Franklin after the Merger beginning on page 34.

Effect of the Merger on Franklin. This is a going private transaction. If the merger is completed, Franklin will continue its operations as a privately-held company. After the merger, Franklin s shares will no longer be listed on the NYSE Amex. In addition, registration of Franklin s common stock under the Securities Exchange Act of 1934, as amended, referred to as the Exchange Act, will be terminated. As a result, Franklin will no longer be required to file periodic or other reports with the Securities and Exchange Commission, referred to in this proxy statement as the SEC, with respect to its common stock or to deliver proxy statements or information statements in connection with shareholders meetings. See Special Factors The Merger Effects of the Merger on Franklin beginning on page 35.

Merger consideration. If the merger is completed, each Franklin shareholder (other than Saunders) will be entitled to receive $2.50 in cash, without interest, for each share of Franklin s common stock owned as of the effective time of the merger. See The Merger Agreement Merger Consideration beginning on page 40.

Treatment of Outstanding Options. At the effective time of the merger, each of Franklin s vested stock options will be cancelled and each holder thereof will receive a payment in cash equal to the product of (i) the excess, if any, of $2.50 over the exercise price per share of common stock subject to such option, multiplied by (ii) the number of shares of Franklin common stock subject to such option as of the effective time of the merger, less applicable withholding taxes. If the exercise price per share of common stock subject to vested options exceeds $2.50, such stock options will be cancelled without consideration. Stock options that have not vested as of the effective time will also be cancelled without consideration. See The Merger Agreement Merger Consideration beginning on page 40.

Treatment of Restricted Stock. At the effective time of the merger, holders of vested shares of restricted stock will be entitled to receive $2.50 in cash, without interest. All unvested shares of restricted stock will be cancelled without consideration. See The Merger Agreement Merger Consideration beginning on page 40.

Special Committee. Franklin s board of directors formed a special committee, referred to in this proxy statement as the special committee, to evaluate the merger and related transactions and to solicit and evaluate other proposed transactions to acquire all of Franklin s stock. In addition, the special committee was charged with recommending action to the full Franklin board of directors with respect to the merger and other proposals. The special committee consists entirely of directors who are not officers or employees of Franklin and who will not have an economic interest in Franklin following the merger. The special committee retained its own legal and financial advisors. The special committee unanimously recommended that Franklin s board of directors approve the merger agreement and the related plan of merger. See Special Factors The Merger Reasons for the Special Committee s Recommendation beginning on page 23.

Board Recommendation. After careful consideration, Franklin s board of directors, (excluding Messrs. Lipsky, Morgan and Simons who, with the concurrence of the other members of the board of directors, recused themselves from the process and did not vote due to their conflicting interests),

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acting upon the recommendation of the special committee, unanimously: (i) determined that the merger is advisable and in the best interests of the Company and determined the merger consideration to be fair to the shareholders of the Company (other than Saunders) (ii) approved the merger agreement and the plan of merger; and (iii) determined to recommend that Franklin s shareholders vote FOR the adoption of the merger agreement. See Special Factors The Merger Reasons for the Board s Recommendation beginning on page 25.

Opinion of the Special Committee s Financial Advisor. In connection with the execution of the merger agreement, the special committee received a written opinion, dated September 30, 2009, of its financial advisor, Oppenheimer & Co. Inc. (which we refer to in this proxy statement as Oppenheimer), as to the fairness, from a financial point of view and as of the date of the opinion, of the merger consideration to be received by holders of Franklin common stock (other than Saunders). The full text of Oppenheimer s written opinion, dated September 30, 2009, is attached to this proxy statement as Annex C. Holders of Franklin common stock are encouraged to read this opinion carefully in its entirety for a description of the assumptions made, procedures followed, matters considered and limitations on the review undertaken. **Oppenheimer s opinion was provided to the special committee in connection with its evaluation of the merger consideration from a financial point of view. Oppenheimer s opinion does not address any other aspect of the merger and does not constitute a recommendation to any shareholder as to how such shareholder should vote or act with respect to any matters relating to the merger.** See Special Factors The Merger Opinion of the Financial Advisor to the Special Committee of the Board of Directors beginning on page 26 and Annex C.

Interests of Franklin s Executive Officers and Directors in the Merger. Some of Franklin s executive officers and directors, including members of the Saunders Group and the members of the special committee, have interests in the merger that are different from, or in addition to, the interests of Franklin s shareholders generally. These interests in the transaction are described below.

Franklin s executive officers and all its directors, including members of the special committee, will be indemnified in respect of their past service and Saunders will maintain Franklin s current directors and officers liability insurance, subject to certain conditions.

Franklin s directors (other than those in the Saunders Group), including members of the special committee, will be entitled to receive the excess, if any, of $2.50 over the applicable per share exercise price for each vested stock option held by them, less any applicable withholding tax.

Messrs. Lipsky, Hokari, Musto, Morgan and Simons, as members of the Saunders Group, will receive the benefits of any growth in revenues or income of Franklin after the merger is consummated.

It is anticipated that Franklin s current executive officers will hold substantially similar positions with the surviving corporation after completion of the merger.

See Special Factors The Merger Interests of Our Directors and Executive Officers in the Merger beginning on page 36.

Interests of Members of the Special Committee. Members of the special committee have interests in the merger that are different from, or in addition to, the interests of Franklin s shareholders and other Franklin directors generally. In addition to the annual fees received by the directors for their services as a member of Franklin s board of directors and other committees thereof, for serving on the special committee, each member received a $10,000 fee, plus expenses.

As described above, Franklin s executive officers and directors (other than those in the Saunders Group), including the members of the special committee, will be entitled to receive the excess, if any, of $2.50 over the applicable per share exercise price for each vested stock option held by them, less any applicable withholding tax.

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The table provided under Special Factors The Merger Interests of Our Directors and Executive Officers in the Merger Benefits Accruing Prior to or Upon the Merger beginning on page 36 sets forth as of , 2010 [record date], for each member of the special committee, (a) the number of shares subject to vested options for Franklin common stock, (b) the value of such vested options, calculated by multiplying (i) the excess of $2.50 over the per share exercise price of the option by (ii) the number of shares subject to the option, and without regard to deductions for income taxes and other withholding taxes, (c) the number of shares of Franklin common stock each member owns and the value of such shares based on the merger consideration of $2.50 per share, and (d) the total value of all such shares of Franklin common stock based on the $2.50 per share cash merger consideration.

See Special Factors The Merger Interests of Our Directors and Executive Officers in the Merger beginning on page 36.

Financing. The total amount of funds required to complete the merger and the related transactions, including payment of fees and expenses in connection with the merger, is anticipated to be approximately $14.5 million. This amount is expected to be provided through a combination of (i) equity contributions from certain members of the Saunders Group to Saunders totaling approximately $2.7 million and (ii) cash and cash equivalents held by Franklin and its subsidiaries. See Financing beginning on page 51.

Material U.S. Federal Income Tax Consequences of the Merger. In general, your receipt of the merger consideration will be a taxable transaction for U.S. federal income tax purposes. For U.S. federal income tax purposes, you will generally recognize capital gain or loss equal to the difference, if any, between the amount of cash received pursuant to the merger and your adjusted basis in the shares surrendered. However, the tax consequences of the merger to you will depend upon your own particular circumstances. **You should consult your own tax advisor in order to fully understand how the merger will affect you.** See Material U.S. Federal Income Tax Consequences beginning on page 38.

No Solicitation of Transactions. The merger agreement restricts Franklin s ability to, among other things, solicit or engage in discussions or negotiations with a third party regarding specified transactions involving Franklin. However, under certain circumstances, Franklin s board of directors or the special committee may:

- respond to an unsolicited written bona fide proposal for an alternative acquisition that could reasonably be expected to lead to a superior proposal; or

- terminate the merger agreement and enter into an acquisition agreement with respect to a superior proposal, so long as Franklin complies with certain terms of the merger agreement, including paying a termination fee to Saunders of $650,000.

See The Merger Agreement Right to Modify Recommendation and Accept a Superior Proposal beginning on page 43.

Conditions to Closing. Before the merger can be completed, a number of conditions must be satisfied or waived (to the extent permitted by law). These include:

- the adoption of the merger agreement and the related plan of merger by Franklin s shareholders;

- no law or order being in effect that prevents or restricts the consummation of the merger;

- all actions required by, or filings required to be made with, any governmental entity that are necessary to permit the consummation of the merger having been taken or made;

subject to applicable materiality qualifications, the truth and correctness of Franklin s and Saunders respective representations and warranties;

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the performance, in all material respects, by Franklin and Saunders of their respective covenants and agreements in the merger agreement; and

the absence of any material adverse effect on Franklin.

See The Merger Agreement Conditions to the Merger beginning on page 41.

Termination of the Merger Agreement. The merger agreement may be terminated at any time prior to the effective time of the merger, whether before or after shareholder approval has been obtained, under certain circumstances, including:

by mutual written consent of Franklin and Saunders;

By Franklin or Saunders, if the special meeting is held and Franklin fails to obtain shareholder approval of the merger agreement at the special meeting, provided that such right shall not be available to a party where the failure to obtain shareholder approval has been caused by the action or failure to act by such party and such action or failure to act constitutes a breach of the agreement;

by Franklin or Saunders, if any court or other governmental entity issues a law, order or injunction that is final and has the effect of prohibiting the merger;

by Franklin or Saunders, if the effective time of the merger shall not have occurred on or before February 28, 2010;

by Franklin, if:

Franklin enters into a definitive agreement containing a superior proposal by a third party provided that Franklin has complied with certain notice and other provisions in the merger agreement; or

Saunders representations and warranties fail to be true and correct or Saunders breaches any of its obligations under the merger agreement, such that, in either case, the applicable conditions to closing would not be satisfied, subject to certain limitations; or

by Saunders, if:

Franklin s representations and warranties fail to be true and correct or Franklin breaches any of its obligations under the merger agreement, such that, in either case, the applicable conditions to closing would not be satisfied, subject to certain limitations;

There has been a material adverse effect with respect to Franklin; or

Franklin enters into a definitive agreement containing a superior proposal or the board of directors of Franklin withdraws or adversely modifies its approval of the merger agreement.

See The Merger Agreement Termination of the Merger Agreement beginning on page 47.

Termination Fees and Expenses. Franklin and Saunders have agreed to pay the other party a termination fee in the amount of $650,000 or the expenses of Saunders under certain circumstances if Franklin or Saunders terminates the merger agreement. See The Merger Agreement Termination Fees beginning on page 48.

Market Price of Franklin Common Stock. The Company s common stock is currently listed on the NYSE Amex under the trading symbol FEP. The closing price of Franklin common stock on the NYSE Amex on May 29, 2009, the last full day of trading before the Saunders Group filed its Schedule 13D with the SEC announcing its going private proposal, was $1.00 per share. The closing price of Franklin common stock on the NYSE Amex on September 30, 2009, the last day of trading before the announcement of the approval of the merger agreement by the Franklin board of directors, was $2.22 per share. On , 2010, Franklin s common stock closed at $ per share. See Market Price and Dividend Data beginning on page 55.

Anticipated Closing of Merger. The merger will be completed after all of the conditions to completion of the merger are satisfied or waived, including the adoption of the merger agreement and the related plan of merger by Franklin s shareholders, and the absence of legal prohibitions to the merger. We currently expect the merger to be completed in the first quarter of 2010, although we cannot assure completion by any particular date, if at all. Franklin will issue a press release and send you a letter of transmittal for your stock certificates once the merger has been completed.

The Special Meeting and Related Matters

Date, Time and Place. The special meeting of shareholders of Franklin will be held at the offices of Katten Muchin Rosenman LLP, 575 Madison Avenue, New York, New York 10022, th floor, conference room , on , 2010 at 10:00 a.m., local time.

Record Date and Voting. You are entitled to vote at the special meeting if you owned shares of Franklin common stock at the close of business on , 2010, the record date for the special meeting. Each outstanding share of Franklin common stock on the record date entitles the holder to one vote on each matter submitted to shareholders for approval at the special meeting. As of the record date, there were shares of Franklin common stock entitled to be voted. See The Special Meeting of Shareholders Record Date; Stock Entitled to Vote beginning on page 13.

Shareholder Vote Required to Adopt the Merger Agreement and the Plan of Merger. The adoption of the merger agreement and the plan of merger requires the affirmative vote of a majority of the votes cast at the special meeting. The merger agreement and the plan of merger do not require the separate approval of unaffiliated security holders for their adoption. Saunders has agreed to vote the shares of the Company s common stock that it owns FOR the adoption of the merger agreement and the plan of merger. See The Special Meeting of Shareholders Vote Required beginning on page 14.

Franklin s board of directors recommends that you vote FOR the adoption of the merger agreement.

Share Ownership of Executive Officers and Directors.

Barry Lipsky, Frank A. Musto and Toshihide Hokari, who are executive officers of the Company, Howard L. Morgan and James H. Simons, who are directors of the Company, and Marcy Lewis, Shining Sea Limited, Julien David and Morton David, who are shareholders of the Company, have contributed their shares of Franklin common stock to Saunders in exchange for shares of Saunders equity securities and, as of the record date, Saunders owned 32.69% of the total outstanding votes of the common stock of Franklin entitled to vote on the merger. In accordance with the terms of the merger agreement, Saunders is required to vote such shares of stock FOR the adoption of the merger agreement and the plan of merger. Our remaining directors as a group own 65,899 shares (0.79%) of our common stock and are expected to vote their shares FOR the adoption of the merger agreement and the plan of merger. See the section captioned Special Factors The Merger Interests of Our Directors and Executive Officers in the Merger on page 36.

Dissenters Rights. Franklin shareholders do not have appraisal or similar rights of dissenters under Pennsylvania law with respect to the merger, any transaction contemplated by the merger agreement and the plan of merger or any other matter described in this proxy statement. See No Dissenters Rights on page 51.

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QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

The following questions and answers briefly address some commonly asked questions about the special meeting and the merger. They may not include all of the information that may be important to you. We urge you to read carefully this entire proxy statement, including the annexed documents and the other documents we refer to and incorporate by reference in this proxy statement. You may obtain the information incorporated by reference in this proxy statement without charge by following the instructions under Where You Can Find More Information beginning on page 57.

Q: Why am I receiving these materials?

A: You are receiving this proxy statement and proxy card because you own shares of Franklin common stock. Franklin s board of directors is providing these proxy materials to give you information for use in determining how to vote in connection with the special meeting of Franklin s shareholders.

Q: Who is soliciting my proxy?

A: This proxy is being solicited by Franklin s board of directors.

Q: What matters will I be asked to vote on at the special meeting?

A: You will be asked to vote on the following proposals:

- to adopt the merger agreement;
- to approve the adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the meeting to adopt the merger agreement; and
- to transact such other business as may properly come before the special meeting.

Q: Who is entitled to vote at the special meeting?

A: Franklin s board of directors has set , 2010 as the record date for the special meeting. If you were a shareholder of record, as shown on the stock transfer books of Franklin, at the close of business on the record date, you are entitled to notice of and to vote at the special meeting or any adjournment or postponement thereof. On the record date, there were shares of Franklin common stock issued and outstanding and, therefore, eligible to vote at the special meeting.

Q: How many shares must be present to hold the special meeting?

A: The holders of at least a majority of the shares of Franklin common stock outstanding and entitled to vote as of the record date must be present, in person or represented by proxy, at the special meeting in order to hold the special meeting and conduct business. This is called a quorum. If you submit a properly executed proxy card, then your shares will be counted as part of the quorum. All shares of Franklin s common stock present in person or represented by proxy and entitled to vote at the special meeting, no matter how they are voted or whether the holders abstain from voting them, will be counted in determining the presence of a quorum.

If the special meeting is adjourned for one or more periods aggregating at least 15 days because of the absence of a quorum, those shareholders entitled to vote who attend the reconvened meeting, if less than a quorum as determined under applicable law, shall nevertheless constitute a quorum for the purpose of acting upon any matter set forth in the Notice of Special Meeting.

Q: What vote of shareholders is required to adopt the merger agreement?

A: The adoption of the merger agreement and the plan of merger requires the affirmative vote of a majority of the votes cast at the special meeting. The merger agreement and the plan of merger do not require the

separate approval of unaffiliated security holders for their adoption. Saunders has agreed to vote its shares of Franklin common stock, representing approximately 32.69% of our issued and outstanding common stock, **FOR** the adoption of the merger agreement and the plan of merger.

Q: How does Franklin s board of directors recommend that I vote on the merger agreement and the plan of merger?

A: Franklin s board of directors recommends that you vote **FOR** the adoption of the merger agreement and the plan of merger.

Q: What vote of shareholders is required to approve the special meeting adjournment proposal?

A: Approval of the special meeting adjournment proposal will require the affirmative vote of a majority of the votes cast on the proposal at the special meeting

Q: How does Franklin s board of directors recommend that I vote on the special meeting adjournment proposal?

A: Franklin s board of directors recommends that you vote **FOR** the approval of the special meeting adjournment proposal.

Q: How many votes do I have?

A: You have one vote for each share of Franklin common stock you own as of the record date.

Q: What effects will the merger have on Franklin?

A: As a result of the merger, Franklin will cease to be a publicly traded corporation. Following completion of the merger, the registration of our common stock and our reporting obligations under the Exchange Act will be terminated upon application to the SEC. In addition, upon completion of the merger, our common stock will no longer be listed on the NYSE Amex.

Q: When do you expect the merger to be completed?

A: We expect that the merger will be completed by the end of the first quarter of 2010, after all conditions to the merger have been satisfied or waived. We intend to complete the merger as promptly as practicable.

Q: Will the merger be a taxable transaction to me?

A: Yes. The receipt of cash for shares of our common stock pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes and may also be taxable under applicable state, local, foreign, and other tax laws. In general, you will recognize gain or loss for U.S. federal income tax purposes equal to the difference between the amount of cash you receive and the adjusted tax basis of your shares of our common stock. For a more detailed explanation of the U.S. federal income tax consequences of the merger, see the section

captioned Material U.S. Federal Income Tax Consequences on page 38 of this proxy statement. You should consult your tax advisor regarding the specific tax consequences of the merger to you.

Q: What if I oppose the merger?

A. If you are a shareholder who objects to the merger, you may vote against adoption of the merger agreement and the plan of merger. However, under Pennsylvania law you will not be entitled to dissenters or appraisal rights. See No Dissenters Rights on page 51.

Q: What happens if the merger is abandoned?

A. If the merger is abandoned, Franklin will remain a publicly traded company listed on the NYSE Amex. In certain circumstances, the Company or Saunders may be required to pay the other party a termination fee.

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Q: How do I vote my shares?

A: In order to vote your shares, you may attend the special meeting and vote in person, or vote by proxy. If your shares are held in street name (that is, if your stock is registered in the name of your broker, bank or other nominee) and you wish to vote at the special meeting, you will need to contact your broker, bank or other nominee regarding how to vote at the special meeting. If you are a registered shareholder (that is, if your stock is registered in your name), you may vote by proxy by completing and signing the enclosed proxy card and returning such card in the postage-paid envelope we have provided you. If you hold your shares through a broker, bank or other nominee, that institution will send you separate instructions describing the procedure for voting your shares.

Q: What if I do not specify how I want my shares voted?

A: If you submit a signed proxy card, but do not indicate how you want your shares voted, the persons named in the enclosed proxy will vote your shares of Franklin common stock:

FOR the adoption of the merger agreement and the related plan of merger; and

FOR the adjournment or postponement of the special meeting if Franklin determines such is necessary or appropriate for purposes of soliciting additional proxies or for some other purpose, (However, no proxy voted against the proposal to approve the merger agreement and the plan of merger will be voted in favor of the adjournment proposal).

Franklin s board of directors does not currently intend to bring any other proposals to the special meeting. If other proposals requiring a vote of shareholders are brought before the special meeting in a proper manner, the persons named in the enclosed proxy card intend to vote the shares they represent in their best judgment.

Q: What if I fail to instruct my broker?

A: A broker non-vote occurs when your broker does not vote on a particular proposal because the broker does not have discretionary voting authority to vote on the proposal. Rules applicable to broker/dealers grant your broker discretionary authority to vote your shares without receiving your instruction on certain matters, such as the adjournment or postponement of the special meeting. However, your broker does not have discretionary authority to vote your shares without instruction for certain other types of matters, such as the adoption of the merger agreement and the related plan of merger. If your broker casts a vote on certain types of proposals, such as the adjournment or postponement proposal, the shares voted by your broker will be deemed present for purposes of determining whether a quorum is present for such proposal and any other proposal before the special meeting. However, because adoption of the proposals to be voted upon at the special meeting requires the affirmative vote of a majority of the votes cast at the special meeting under Pennsylvania law, and a broker non-vote with respect to such proposals will not be counted as a vote cast for or against the proposals, such broker non-votes will have no effect on the outcome of the vote on such proposals.

Q: If I abstain from voting or withhold authority to vote for any proposal, will my shares be counted in the vote?

A: Because the adoption of the proposals before the special meeting requires the affirmative vote of a majority of the votes cast at the special meeting under Pennsylvania law, and abstentions and withholdings of authority to vote are not considered as votes cast, abstentions and withholdings of authority will have no effect on the outcome of the vote on such proposals. However, abstentions and withholdings of authority will be treated as shares that are present for purposes of determining whether a quorum exists.

Q: What does it mean if I receive more than one proxy card?

A: If you receive more than one proxy card, it means that you hold shares that are registered in more than one account. To ensure that all of your shares are voted, you will need to sign and return each proxy card you receive.

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Q: What do I need to do now?

A: We urge you to read carefully this entire proxy statement, including the annexed documents and the other documents we refer to and incorporate by reference in this proxy statement. You may obtain the information incorporated by reference in this proxy statement without charge by following the instructions under Where You Can Find More Information beginning on page 57. In addition, you should indicate your vote on your proxy card and sign and mail your proxy card in the enclosed return envelope as soon as possible so that your shares may be represented at the special meeting.

Q: Can I change my vote after submitting my proxy?

A: Yes. You can change your vote at any time before your proxy is voted at the special meeting. If you are a shareholder of record, you may revoke your proxy in one of three ways:

- delivering to the Corporate Secretary notice of revocation in writing or by electronic transmission prior to the date of the special meeting;
- delivering to the Corporate Secretary an executed proxy bearing a later date, before the vote is taken at the special meeting; or
- you can attend the special meeting and vote in person. Your attendance alone will not revoke your proxy. You must also vote in person at the special meeting.

You should send any written notice of revocation, or later dated proxy, to the attention of Frank A. Musto, Corporate Secretary, Franklin Electronic Publishers, Incorporated, One Franklin Plaza, Burlington, New Jersey 08016. The last vote received will supersede any prior vote.

You may hand deliver a written revocation notice, or later dated proxy, to the Corporate Secretary at the special meeting before voting begins. Any notice of revocation by electronic transmission should be given to the Corporate Secretary to the following e-mail address: corporate_secretary@franklin.com.

If you hold your shares in street name, you must contact your broker, bank or other nominee regarding how to change your vote.

Q: Should I send in my stock certificates now?

A: No, if the merger is completed, you will receive, shortly after the effective time of the merger, a letter of transmittal to complete and return to , the exchange agent. In order to receive the merger consideration as soon as reasonably practicable following the completion of the merger, you must send the exchange agent your properly completed letter of transmittal together with your Franklin stock certificates as instructed in the separate mailing. Once you have submitted your properly completed letter of transmittal, Franklin stock certificates and other required documents to the exchange agent, the exchange agent will send you the merger consideration. If your shares are held in street name by your broker, you will receive instructions from your broker as to how to effect the surrender of your street name shares and receive cash for those shares. **You should not send in your stock certificates now.**

Q: I do not know where my stock certificate is how will I get my cash?

A:

The materials the exchange agent will send you after completion of the merger will include the procedures that you must follow if you cannot locate your stock certificate. This will include an affidavit that you will need to sign attesting to the loss of your certificate. The surviving corporation may also require that you provide a bond at your expense to the surviving corporation in order to cover any potential loss.

Q: Who pays for the cost of the solicitation of proxies?

A: Franklin will bear the cost of this solicitation. In addition to solicitation by mail, officers, directors or employees of Franklin may also solicit proxies by telephone, facsimile or in person, without additional compensation. Upon request, Franklin will pay the reasonable expenses incurred by record holders of

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Franklin s common stock who are brokers, dealers, banks or voting trustees, or their nominees, for mailing proxy material to the beneficial owners of the shares they hold of record.

Q: Who can answer further questions?

A: If you would like additional copies of this proxy statement or a new proxy card or if you have questions about the merger, you should contact the Company s proxy solicitor, Regan & Associates, Inc., at (800) 737-3426.

Q. If the merger is completed, what will I be entitled to receive for my shares of Franklin common stock?

A. You will be entitled to receive $2.50 in cash, without interest, for each share of our common stock that you own. After the merger closes, the exchange agent will arrange for a letter of transmittal containing detailed instructions to be sent to each shareholder. The letter of transmittal and instructions will tell you how to surrender your common stock certificates in exchange for the merger consideration. The merger consideration will be paid to a shareholder once that shareholder submits a properly completed letter of transmittal accompanied by that shareholder s stock certificates and any other required documentation.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The safe harbor statements with respect to forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended contained in Franklin s annual report on Form 10-K and its Forms 10-Q, attached to this proxy statement as Annexes D, E and F, do not apply to any forward-looking statements the Company makes in connection with the proposed merger.

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THE SPECIAL MEETING OF SHAREHOLDERS

We are furnishing this proxy statement to you, as a holder of our common stock, as part of the solicitation of proxies by Franklin s board of directors for use at the special meeting of shareholders described below.

Date, Time and Place of the Special Meeting

The special meeting will be held at the offices of Katten Muchin Rosenman LLP, 575 Madison Avenue, New York, New York 10022, th floor, conference room , on , 2010 at 10:00 a.m., local time.

Proposals to be Considered at the Special Meeting

At the special meeting you will be asked:

1. To act on a proposal to adopt the merger agreement, dated as of September 30, 2009, by and between Saunders and Franklin, and the related plan of merger, providing for the merger of Saunders with and into Franklin and to approve the merger and related transactions contemplated by the merger agreement and plan of merger. A copy of the merger agreement and the plan of merger are attached as Annex A and Annex B, respectively, to this proxy statement.

2. To consider and vote upon a proposal to adjourn or postpone the special meeting if Franklin determines such is necessary or appropriate for any purpose, including for the purpose of soliciting additional proxies in favor if there are not sufficient favorable votes at the time of the special meeting to adopt the merger agreement and the related plan of merger.

3. To transact any other business that may properly come before the special meeting or any adjournment or postponement of the special meeting, including to consider any procedural matters incident to the conduct of the special meeting.

If the merger is completed, each share of stock (other than those shares held by Saunders) will be converted into the right to receive $2.50 in cash, without interest. After the merger, these shares will not represent any interest in the surviving corporation other than the right to receive this cash payment.

Our Board s Recommendation

After careful consideration, our board of directors (excluding Messrs. Lipsky, Morgan and Simons who, with the concurrence of the other members of the board of directors, recused themselves from the process and did not vote due to their conflicting interests), by a unanimous vote at a meeting held on September 30, 2009:

- determined that the merger is advisable and in the best interests of the Company and determined the merger consideration to be fair to the shareholders of the Company (other than Saunders);
- approved the merger agreement and the related plan of merger; and
- determined to recommend that Franklin s shareholders vote FOR the adoption of the merger agreement and the related plan of merger.

In addition, it is the belief of Messrs. Lipsky, Morgan and Simons, as well as of Frank Musto, Toshihide Hokari and Shining Sea Limited (collectively, the Saunders Principal Shareholders), members of the Saunders Group, that the merger consideration is fair to shareholders of the Company other than Saunders.

Record Date; Stock Entitled to Vote

Only holders of record of Franklin common stock as of the close of business on , 2010 are entitled to notice of, and to vote at, the special meeting and any adjournment or postponement of the special

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meeting. Each outstanding share of our common stock on the record date entitles the holder to notice of and to one vote on each matter submitted to shareholders for approval at the special meeting. As of the record date, there were shares of our common stock outstanding and entitled to be voted on the proposals to be considered at the special meeting.

Quorum

A quorum of our shareholders is necessary to have a valid shareholders meeting. The required quorum for the transaction of business at the special meeting is the presence, in person or represented by proxy, of holders of a majority of the outstanding Franklin common stock entitled to vote at the special meeting. Abstentions will be counted as present for purposes of determining the existence of a quorum. Broker non-votes will be counted as present for purposes of determining the existence of a quorum only if the broker votes on certain matters, such as the proposal to adjourn the special meeting if Franklin determines such to be necessary or appropriate. In the event that a quorum is not present at the special meeting, we currently expect that we will adjourn or postpone the special meeting to solicit additional proxies in favor of adoption of the merger agreement and the plan of merger.

Vote Required

Under Pennsylvania law, and pursuant to the merger agreement, we cannot complete the merger unless the merger agreement and the related plan of merger are adopted by the affirmative vote of a majority of the votes cast by the holders of the outstanding shares of our common stock that are entitled to vote at the special meeting. The merger agreement and the plan of merger do not require the separate approval of unaffiliated security holders for their adoption. Under Pennsylvania law, the affirmative vote of a majority of the votes cast by the holders of the outstanding shares of our common stock that are entitled to vote at the special meeting is required to approve all other proposals to be voted upon at the special meeting.

The Saunders Principal Shareholders, along with certain other shareholders of the Company named above, have contributed their shares of Franklin common stock to Saunders in exchange for shares of Saunders equity securities. Consequently, as of the record date, Saunders owned 2,741,126 shares, or approximately 32.69% of our common stock, which, in accordance with the terms of the merger agreement, Saunders will vote FOR the merger. In addition, Marcy Lewis, one of the shareholders of Saunders, has indicated that she will vote 645,350 shares, or approximately 7.69% of our common stock, that will not be contributed to Saunders FOR the merger. Our remaining directors as a group own 65,899 shares, or approximately 0.79% of our common stock, and are expected to vote their shares FOR the adoption of the merger agreement and the plan of merger.

Procedures for Voting

Holders of record of our common stock may vote their shares by attending the special meeting and voting their shares of our common stock in person, or by completing the enclosed proxy card, dating and signing it and mailing it in the enclosed postage-prepaid envelope.

Shareholders who hold their shares of our common stock in street name, meaning in the name of a bank, broker or other person who is the record holder, must either direct the record holder of their shares of our common stock how to vote their shares or obtain a proxy from the record holder to vote their shares at the special meeting.

Shareholders who have questions or requests for assistance in completing and submitting proxy cards should contact the Company s proxy solicitor, Regan & Associates, Inc., at (800) 737-3426.

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Voting of Proxies and Failure to Vote

All shares of our common stock represented by properly executed proxies received in time for the special meeting will be voted at the special meeting in the manner specified by the holder. If a shareholder returns a properly signed proxy card but does not indicate how the shareholder wants to vote, the shareholder s proxy will be counted as a vote FOR adoption of the merger agreement and the plan of merger and FOR approval of the adjournment or postponement proposal.

Abstentions and withheld votes will be considered as being present at the meeting for purposes of determining the existence of a quorum. Broker non-votes will be considered as being present at the special meeting for purposes of determining the existence of a quorum only if the broker votes on certain matters, such as the adjournment or postponement proposal. Under Pennsylvania law, the affirmative vote of a majority of the votes cast at the special meeting is required for the approval of the proposals to be voted upon at the special meeting. Because abstentions, withheld votes and broker non-votes are not considered as votes cast, they will not affect the outcome of the vote on the proposals to be voted upon at the special meeting.

Revocability of Proxies

Holders of our common stock may change their vote at any time before their proxy card is voted at the special meeting. A shareholder can do this in one of three ways. First, the shareholder can send a written, dated notice to the Corporate Secretary of Franklin at One Franklin Plaza, Burlington, NJ 08016, who must receive it before the proxy has been voted at the special meeting, stating that the shareholder would like to revoke the proxy. Second, before the proxy has been voted at the special meeting, a shareholder can complete, date and deliver to the Corporate Secretary a new proxy card. Third, a shareholder can attend the meeting and vote in person. Attendance, by itself, will not revoke a proxy. It will only be revoked if the shareholder actually votes at the special meeting. If a shareholder has instructed a broker to vote the shareholder shares, the shareholder must follow directions received from the broker to change those instructions.

Solicitation of Proxies

In addition to solicitation by mail, our directors, officers and employees may solicit proxies by telephone, other electronic means or in person. Our directors, officers and employees will not receive any additional compensation for their services, but we will reimburse them for their out-of-pocket expenses. We will reimburse banks, brokers, nominees, custodians and fiduciaries for their reasonable expenses in forwarding copies of this proxy statement to the beneficial owners of shares of our common stock and in obtaining voting instructions from those owners. We will pay all expenses of filing, printing and mailing this proxy statement.

The Company retained Regan & Associates, Inc. to solicit proxies in favor of the adoption of the merger agreement and the plan of merger and the approval of the adjournment or postponement proposal, distribute proxy materials to shareholders, answer shareholder questions and collect and tabulate proxies. The Company will pay Regan & Associates, Inc. $8,000 for such services.

Other Business

We are not currently aware of any business to be acted upon at the special meeting other than the matters discussed in this proxy statement. Under our bylaws, business transacted at the special meeting is limited to matters relating to the purposes stated in the notice of special meeting, which is provided at the beginning of this proxy statement. If other matters do properly come before the special meeting, or at any adjournment or postponement of the special meeting, we intend that shares of our common stock represented by properly submitted proxies will be voted by and at the discretion of the persons named as proxies on the proxy card. In addition, the grant of a proxy will confer discretionary authority on the persons named as proxies on the proxy card to vote in accordance with their best judgment on procedural matters incidental to the conduct of the special meeting.

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PARTIES TO THE MERGER

Franklin Electronic Publishers, Incorporated

One Franklin Plaza

Burlington, NJ 08016

(609) 386-2500

Franklin Electronic Publishers, Incorporated, a Pennsylvania corporation, designs, develops, publishes and distributes electronic information on handheld devices, memory media cards, and via internet downloads. We also design, develop, and license to third parties, linguistic technology, such as spelling error detection software in thirty-six languages, for use in application software, electronic products and on the internet.

Saunders Acquisition Corporation

c/o Barry J. Lipsky

2 Briarwood Ct.

Princeton Junction, NJ 08550

(609) 509-3024

Saunders Acquisition Corporation, a Delaware corporation, is a private company formed for the purpose of acquiring the Company.

Directors, Executive Officers and Principal Shareholders of Saunders

Set forth below for each of Saunders directors, executive officers and principal shareholders is such person s respective present principal occupation or employment, the name and principal business of the corporation or other organization in which such occupation or employment is conducted and the five-year employment history of each such person. Each person identified below, other than Mr. Hokari and Shining Sea Limited (Shining Sea), is a citizen of the United States of America. Mr. Hokari is a citizen of Japan, and Shining Sea is an exempted company organized under the laws of the Island of Bermuda.

During the last five years, none of Saunders directors, executive officers or principal shareholders has been (a) convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or (b) a party to any judicial or administrative proceeding (except for matters that were dismissed without sanction or settlement) that resulted in a judgment or decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws.

Listed below are the directors, executive officers and principal shareholders of Saunders as well as background information relating to such persons.

Barry J. Lipsky joined Franklin as Vice President in February 1985. He was elected Franklin s Executive Vice President in 1997, Interim President and Chief Operating Officer in April 1999 and our President and Chief Executive Officer in May 1999. Mr. Lipsky has been a Director or Managing Director of Franklin s Hong Kong subsidiary since its inception in 1985 and Chairman of such subsidiary since May 2008. Prior to joining Franklin and from 1972, Mr. Lipsky was employed by Mura Corporation of Hicksville, New York, a designer and importer of consumer electronic products and custom components. The principal business office and address of Mr. Lipsky is c/o Franklin Electronic Publishers, Incorporated, One Franklin Plaza, Burlington, New Jersey 08016.

Frank A. Musto joined Franklin as Vice President, Chief Financial Officer in September 2007. Prior to joining Franklin, Mr. Musto had served as Chief Financial Officer of Polarome International, Inc., a manufacturer and distributor of flavor and fragrance ingredients. Mr. Musto was a member of the Executive Committee and Advisory Board of Directors of Polarome since 2002. From July 2000 through September 2001,

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Mr. Musto served as Chief Financial Officer, Treasurer, and Secretary, and a member of the Board of Directors of Matchbook FX Holdings, Inc. Previously, Mr. Musto was Vice President, Chief Financial Officer and a member of the Board of Directors of JLM Industries, Inc. (NASDAQ) from 1986 through 2000. The principal business office and address of Mr. Musto is c/o Franklin Electronic Publishers, Incorporated, One Franklin Plaza, Burlington, New Jersey 08016.

Toshihide Hokari returned to Franklin as Vice President, Chief Corporate Development Officer in September 2007 and became Chief Operating Officer in May 2008 and Senior Vice President in June 2008. Prior to rejoining Franklin, since 2004, Mr. Hokari was Director and Senior Director, Product Management of Altec Lansing (a Division of Plantronics, Inc.), a consumer electronics company. Mr. Hokari previously worked with Franklin from 1996-1999 as a Product Manager and from 1999-2004 holding various positions, including Vice President, Product Management. The principal business office and address of Mr. Hokari is c/o Franklin Electronic Publishers, Incorporated, One Franklin Plaza, Burlington, New Jersey 08016.

Howard L. Morgan is, and for more than the past five years has been, President of Arca Group, Inc., a consulting and investment management firm, and since January 1999 has been a director of and consultant to Idealab, which creates and operates internet companies. Since 2005, he has been a director of First Round Capital, a venture investment firm. Dr. Morgan was Professor of Decision Sciences at the Wharton School of the University of Pennsylvania from 1972 through 1986. He is a director of Internet Brands, Inc. Dr. Morgan is also Chairman of the Board of Directors of Franklin. The principal business office and address of Dr. Morgan is c/o Franklin Electronic Publishers, Incorporated, One Franklin Plaza, Burlington, New Jersey 08016.

James H. Simons was Chairman of the Board of Renaissance Technologies Corp. (now Renaissance Technologies LLC) from 1982 through 2009 and served as President from 1982 to 2008 and Chief Executive Officer from 2008 to 2009. He served as Chairman of our Board of Directors from 1997 to 2005. Dr. Simons is a director of the Paul Simons Foundation, The Simons Foundation, and Math for America, Inc. Dr. Simons is also a member of the Board of Directors of Franklin. The principal business office and address of Dr. Simons is c/o Renaissance Technologies LLC, 800 Third Avenue, New York, New York 10022.

Shining Sea is an exempted company organized under the laws of the Island of Bermuda, its principal business is investment holding and management and the address of its principal office is c/o Bermuda Trust Company Ltd., Compass Point, 9 Bermudiana Road, Hamilton HM11, Bermuda.

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SPECIAL FACTORS THE MERGER

Background of the Merger

In the course of evaluating the direction of our business, our board of directors periodically considers various strategic options to maximize shareholder value through profitable revenue growth and efficiency gains, as well as through possible acquisitions of other businesses, commercial alliance arrangements and strategic combinations with other companies. Over the past two years, several acquisitions of other businesses were explored but abandoned for various reasons. The two preliminary offers to purchase assets or stock of the Company referenced below as the potential strategic acquiror and the potential financial acquiror were considered and the offerors were approached anew in the market check process described below. During the relevant time periods discussed below, our board of directors consisted of seven non-employee directors and one employee director Mr. Lipsky, our President and Chief Executive Officer.

In August of 2008, the investment banking firm of Milbank Roy & Co., LLC approached two of our directors, Dr. Morgan and Mr. Cohen, on behalf of a private company, which we refer to as the potential strategic acquiror, regarding the possibility of discussing a business combination with Franklin. Such contacts were reported to Franklin s board of directors on August 20, 2008, and Mr. Lipsky met with representatives of Milbank Roy to discuss the possibility of a transaction on September 3, 2008.

On September 10, 2008, the Company received a preliminary offer from Milbank Roy on behalf of the potential strategic acquiror to acquire certain assets and liabilities of the Company for approximately $13 million. Following such offer, the Company executed a non-disclosure and standstill agreement with the potential strategic acquiror and provided Milbank Roy with additional financial information.

On October 3, 2008, Milbank Roy delivered a revised preliminary offer on behalf of the potential strategic acquiror that increased the cash component of the potential strategic acquiror s offer to approximately $14 million. Following the receipt of such offer, our board of directors authorized Mr. Lipsky to continue discussions with the potential strategic acquiror regarding the details of its asset acquisition proposal. Over the next several months, Mr. Lipsky continued discussions with the potential strategic acquiror regarding a potential transaction. At the same time, Franklin s board of directors continued to evaluate the Company s strategic position, including acquisition candidates.

On November 10, 2008, the Company s board of directors met at Katten Muchin Rosenman s offices in New York City to discuss the status of the negotiations with the potential strategic acquiror. The board also discussed the potential benefits of a going-private transaction, a stock buyback program, and several strategic acquisition candidates.

On November 25, 2008, Dr. Morgan and Mr. Lipsky met with representatives of the potential strategic acquiror and Milbank Roy.

On December 2, 2008, the potential strategic acquiror submitted a revised proposal to purchase certain assets, and assume certain liabilities, of the Company. The revised proposal assumed a net value per share of Franklin common stock at between $.83 and $1.19. Franklin s board of directors met telephonically on December 10, 2008 to review the revised proposal, and following extensive discussion, rejected the proposal as inadequate and decided to cease further discussions with the potential strategic acquiror.

On December 10, 2008, following the meeting of Franklin s board of directors, Mr. Lipsky contacted representatives of Milbank Roy to inform them of the board s decision to reject the potential strategic acquiror s asset purchase offer.

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On December 15, 2008, Milbank Roy contacted Mr. Lipsky and Dr. Morgan to convey a non-binding proposal for the potential strategic acquiror to purchase all of the Company s equity for cash at a purchase price of $2.15 per share.

On December 19, 2008, Franklin s board of directors met telephonically to discuss the potential strategic acquiror s new proposal to purchase the Company s equity. Mr. Lipsky summarized the material points of his conversation with Milbank Roy and the board discussed the possible transaction s merits for the Company and its shareholders. At such meeting, without deciding whether or not the Company was for sale, the board determined that its audit committee would be delegated the ability to decide various matters arising out of the proposal and in any final draft of an acquisition agreement, subject to the full board s consideration of any final agreement with the potential strategic acquiror. The board further authorized the Company s management to entertain future proposals only if they contemplate the purchase of all of the outstanding stock of the Company at a cash price of at least $2.15 per share, not to accept any financing contingency in any proposed acquisition agreement and to require the potential strategic acquiror to demonstrate the capability to finance such a transaction.

On February 18, 2009, Franklin s board of directors met at the Company s offices and reviewed the further discussions with the potential strategic acquiror and Milbank Roy. At that meeting, the board unanimously affirmed its previous position with respect to the potential strategic acquiror, i.e., that management is authorized only to entertain an offer to purchase all of the outstanding stock of the Company at a price of at least $2.15 per share provided that the potential strategic acquiror demonstrates credible financial assurance of its ability to finance such a transaction.

On March 30, 2009 Franklin s board of directors met telephonically and discussed the status of the potential strategic acquiror s non-binding offer at $2.15 per share and reviewed the potential strategic acquiror s evidence of financing. The board also discussed a proposal that one of our directors received from an individual dated February 11, 2009, which we refer to as the potential financial acquiror, pursuant to which such potential financial acquiror would purchase all of the Company s equity at a price of between $2.00 and $2.50 per share. The potential financial acquiror did not submit information with respect to its financing but indicated it would shortly provide evidence of the ability to finance its proposed transaction. After an extensive discussion of these two proposals, the board determined to provide the potential financial acquiror access to due diligence materials after executing a non-disclosure agreement. Following the discussion Mr. Lipsky requested that the board allow him a 30-day period in which to organize a proposal to purchase all of the Company s equity, which the board agreed to do. Franklin s board of directors also resolved to communicate to representatives of the potential strategic acquiror and the potential financial acquiror that, although the board of directors had not decided that the Company was for sale, if they had an interest in entering into a strategic transaction with the Company, they should consider raising their proposed per share purchase price.

On May 20, 2009, Franklin s board of directors met at the offices of Renaissance Technologies LLC in New York City and discussed the status of the outstanding offers to acquire the Company s equity. After this discussion, Mr. Lipsky informed the board that he, Mr. Hokari and Mr. Musto had formed Saunders Acquisition Corporation for the purpose of acquiring the Company. He also indicated that Drs. Morgan and Simons and certain other shareholders of the Company, had agreed to support the proposed acquisition by Saunders. Mr. Lipsky, on behalf of Saunders, submitted a non-binding proposal to the board of directors pursuant to which Saunders would acquire all of the Company s equity for cash at a price of $2.35 per share. Mr. Lipsky also informed the board that Saunders had retained its own legal counsel and accounting advisors.

In light of the Saunders proposal and the two other outstanding proposals to purchase the Company s equity, the board of directors formed a special committee of non-management, independent members of our board of directors to facilitate a timely and effective process with respect to the board s review of a potential transaction with each of the three bidders and in order to avoid any appearance of a conflict of interest. Mr. Cohen was appointed as the chairman of the special committee, with Messrs. Meister and Turner as the other

two members. The board of directors delegated to the special committee the authority to review, negotiate and evaluate the terms of a potential transaction, to solicit offers to purchase the Company from potential buyers in addition to the three current bidders, to engage financial and legal advisors, and, if appropriate, to make a recommendation to the board of directors regarding a possible transaction with a potential acquiror and any alternatives to a sale of the Company.

On May 20, 2009, following the meeting of Franklin s full board of directors, the special committee met and, after determining that such firm had not participated in any way in the planning and development of the Saunders proposal, appointed Katten Muchin Rosenman LLP as its legal counsel, and determined that it would retain financial advisors as soon as practicable. The special committee also determined that if it were to entertain any proposal to acquire the Company, such proposal must be in the form of an all-cash acquisition for all of the outstanding stock of the Company and not be subject to any financing condition.

On May 29, 2009, Messrs. Lipsky, Hokari and Musto, Drs. Morgan and Simons and certain other shareholders of the Company filed a Schedule 13D with the SEC disclosing the formation of their group and Saunders offer to purchase all of the Company s equity.

On June 1, 2009, the Company issued a press release and filed a Form 8-K with the SEC announcing its receipt of the Schedule 13D filed with respect to the Saunders offer and the creation of the special committee to evaluate the Saunders proposal and other proposals.

On June 4, 2009, the special committee and representatives of Katten Muchin Rosenman LLP met at Katten Muchin Rosenman s offices in New York City. The primary purpose of the meeting was to interview potential financial advisors to the special committee. Following interviews with three potential advisors, the special committee determined to retain Oppenheimer & Co. Inc. as its financial advisor. The special committee also determined that, given that Franklin is a Pennsylvania corporation, it was advisable to retain local counsel and engaged Ballard Spahr LLP to serve as its special Pennsylvania counsel.

On June 12, 2009, representatives of Oppenheimer met with the Company s senior management team at the Company s headquarters in Burlington, New Jersey. The primary purpose of the meeting was for representatives of Oppenheimer to conduct due diligence on the Company and gain an understanding of the Company s business.

On June 29, 2009, the special committee, along with representatives of Oppenheimer, Katten Muchin Rosenman LLP and, for a portion of the meeting, Ballard Spahr (by telephone conference call) met at Katten Muchin Rosenman s offices in New York City. Oppenheimer s representatives presented a list of companies that, in their view, might have an interest in purchasing the Company, including strategic and financial buyers, and the level of interest such buyers may have in the Company. The Oppenheimer representatives also provided a preliminary analysis of the Company s financial performance and of the premiums typically paid in transactions similar to type the special committee would be reviewing. The preliminary analysis of the Company s financial performance provided by Oppenheimer was a preliminary version of the financial analysis discussed with the special committee at the September 30, 2009 meeting described more fully later in this proxy statement and was based on information available as of June 29, 2009. The special committee authorized Oppenheimer to (i) prepare descriptive materials concerning the Company, subject to the special committee s final approval, and (ii) subject to pre-clearance by the Company s management to avoid business conflicts, approach the most probable potential buyers and to provide such potential buyers with due diligence materials upon the execution of non-disclosure and standstill agreements. Representatives from Ballard Spahr also explained certain aspects of Pennsylvania s corporate law to the special committee.

Between June 12, 2009 and September 30, 2009, approximately 31 parties (12 of which were strategic buyers), not including Saunders, were contacted by representatives of Oppenheimer to solicit indications of interest in the Company. Of these parties, four parties requested, and received, materials containing publicly available information relating to the Company and confidential financial projections prepared by the Company s

management. The earlier strategic acquirer did not request or receive the confidential financial projections. Interested parties were requested to submit indications of interest concerning the Company by August 6, 2009.

On July 27, 2009, the special committee, along with representatives of Katten Muchin Rosenman and Oppenheimer, met telephonically to discuss the results of Oppenheimer s efforts to date to contact approximately 31 parties it identified as potentially interested in a transaction with the Company. The special committee encouraged further discussions with the contacted parties and also discussed with representatives of Oppenheimer the process for moving forward.

On August 6, 2009, an indication of interest from the earlier financial acquirer was received. The proposal reflected a price range of $2.50 to $2.67 per share. Saunders did not submit a formal indication of interest but reaffirmed its offer of $2.35 per share, which it had originally made on May 20, 2009.

On August 13, 2009, the special committee, along with representatives of Katten Muchin Rosenman and Oppenheimer, met telephonically to receive a presentation by Oppenheimer with respect to its discussions with Saunders representatives and representatives of the earlier financial acquirer. As to the earlier financial acquirer, Oppenheimer reported that while it appeared to be moving forward and had provided a preliminary range of offering prices per share, it was also clear that this earlier financial acquirer had not yet received commitments for all of its necessary financing. In connection with its discussions with representatives of Saunders, the Oppenheimer representatives indicated that they had urged an increase in the bid price originally submitted. The special committee also discussed with Oppenheimer a suggested timetable for the submission of final bids and Oppenheimer s representatives reviewed with the special committee its discussions with several other potential bidders, focusing on one additional strategic and one additional financial bidder. Oppenheimer also noted that the earlier strategic acquiror declined to participate further in the sale process. Finally, members of the special committee discussed the views of special Pennsylvania counsel with respect to Pennsylvania law issues relating to the management bid.

On August 18, 2009, the special committee, along with representatives of Katten Muchin Rosenman and Oppenheimer, met telephonically to discuss the timing of the bid process and to provide a further update on the status of the potential bidders that had not officially declined to participate in the process. The special committee also determined that final bids would be due on September 4, 2009, later extended, at the request of the earlier financial acquirer, to September 11, 2009.

On August 19, 2009, Franklin s board of directors met at the offices of Renaissance Technologies in New York City along with representatives from Katten Muchin Rosenman. At this meeting, Mr. Cohen summarized the results of the special committee s process to date and the next steps going forward.

On August 31, 2009, members of the Company s senior management team and the department management teams in Burlington, New Jersey, USA, members of the earlier financial acquirer and representatives of Oppenheimer met telephonically to provide the earlier financial acquirer an opportunity to conduct due diligence on the Company.

On August 31, 2009, the Managing Director of Company s European operation in Munich, Germany, members of the earlier financial acquirer and representatives of Oppenheimer met telephonically to provide the earlier financial acquirer an opportunity to conduct additional due diligence on the Company.

On September 3, 2009, members of the department management teams in Hong Kong, China, members of the earlier financial acquirer and representatives of Oppenheimer met telephonically to provide the earlier financial acquirer an opportunity to conduct additional due diligence on the Company.

On September 15, 2009, the special committee, along with representatives of Katten Muchin Rosenman, Ballard Spahr and Oppenheimer met at Katten Muchin Rosenman s offices in New York City. Oppenheimer s

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representatives explained that on September 11, 2009, the final date to submit bids to Oppenheimer, the only bid received was from Saunders at $2.50 per share, up from $2.35 per share in its original offer. Oppenheimer s representatives also reported that the potential financial acquiror, from whom Oppenheimer was also expecting a final bid, had decided not to proceed in the process. Following a discussion of the merits of Saunders bid, its value to Franklin and its shareholders, the consequences of rejecting the sole bid, the trading price of the Company s common stock in the months preceding the Saunders offer and the likely retention of current employees of the Company, and other considerations discussed below, the special committee unanimously approved recommending the Saunders offer to Franklin s full board of directors subject to certain conditions, including the negotiation of an acceptable definitive merger agreement and the receipt of an opinion from Oppenheimer regarding the fairness of Saunders offer to the Company s shareholders (other than Saunders), from a financial point of view.

On September 30, 2009, the special committee, along with representatives of Katten Muchin Rosenman, Ballard Spahr and Oppenheimer, met at the offices of Renaissance Technologies in New York City. At this meeting representatives from Katten Muchin Rosenman explained the terms of the merger agreement that representatives from Katten Muchin Rosenman had negotiated with counsel for Saunders. Also at this meeting, Oppenheimer reviewed with the special committee its financial analysis of the merger consideration as set forth in detail under the heading Opinion of Financial Advisor to the Special Committee of the Board of Directors, and rendered to the special committee an oral opinion, confirmed by delivery of a written opinion, dated September 30, 2009, to the effect that, as of that date and based on and subject to the matters described in the opinion, the merger consideration to be received by holders of Franklin common stock (other than Saunders) was fair, from a financial point of view, to such holders. Following consideration of all the relevant factors and the receipt of Oppenheimer s opinion, the special committee determined to recommend the merger agreement to Franklin s board of directors.

Immediately following the special committee s meeting, Franklin s full board of directors met along with representatives of Katten Muchin Rosenman, Ballard Spahr and Oppenheimer, at the offices of Renaissance Technologies in New York City. Mr. Cohen informed the board of directors that the special committee had received from Oppenheimer its oral opinion, to be subsequently confirmed in writing, to the effect that, as of the date of the written opinion and based upon and subject to the factors, assumptions, limitations and other considerations to be described in the written opinion, the merger consideration to be received by holders of Franklin common stock (other than Saunders) pursuant to the merger agreement was fair, from a financial point of view, to such holders. Mr. Cohen, with representatives from Katten Muchin Rosenman, also reviewed with Franklin s board of directors the terms of the merger agreement with Saunders. Mr. Cohen then reported to the board of directors that the special committee had determined to recommend to the board of directors that it approve Saunders merger agreement and the related plan of merger. After discussing the terms of Saunders merger agreement, the board of directors, with Mr. Lipsky and Drs. Morgan and Simons abstaining, determined that the merger is advisable and in the best interests of the Company, approved the merger agreement and determined the merger consideration to be fair to the shareholders of the Company (other than Saunders) and recommended to the shareholders that they approve and adopt the merger agreement at a special meeting. In addition, it is the belief of the Saunders Principal Shareholders that the merger consideration is fair to shareholders of the Company other than Saunders.

Later on September 30, 2009, Franklin and Saunders and their respective legal advisors finalized the merger agreement and executed the definitive merger agreement and Franklin issued a press release announcing the approval of the merger agreement.

On October 1, 2009, the Company filed a Form 8-K with the SEC announcing the execution of the merger agreement.

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Reasons for the Special Committee s Recommendation

In reaching its conclusions described above, the special committee considered the factors set forth below, each of which the special committee believes supported its conclusions but which are not listed in any relative order of importance:

- the current and historical market prices of Franklin s common stock, including the market price of Franklin s common stock relative to those of peer industry participants and general equity markets indices, and the fact that the merger consideration represents a premium of 150% over the closing price of $1.00 on May 29, 2009 (the last full day of trading before the Schedule 13D related to Saunders offer was filed with the SEC) and a premium of 184% over the average of the closing prices of Franklin s common stock over the 180 days prior to May 29, 2009;

- its belief that the merger is the best alternative for Franklin and its shareholders, taking into account the uncertain returns to such shareholders in light of Franklin s business operations, financial condition, strategy and prospects, as well as the risks of achieving those returns, the nature of Franklin s industry and general economic and market conditions;

- the potential value to Franklin and its shareholders that might result from other strategic alternatives available to Franklin, including, among other things, remaining a company with publicly traded common stock, entering or acquiring strategically complementary businesses or acquiring other businesses in Franklin s existing business lines and the execution risks associated with those alternatives, compared to the risks and benefits of the merger;

- the opinion, and financial presentation, dated September 30, 2009, of Oppenheimer to the special committee as to the fairness, from a financial point of view and as of the date of the opinion, of the merger consideration to be received by holders of Franklin common stock (other than Saunders), as more fully described below under the caption Opinion of the Financial Advisor to the Special Committee;

- the fact that the merger consideration to be received by Franklin s shareholders is all cash, so that the merger allows Franklin s shareholders to immediately realize a fair value, in cash, for their investment and provides certainty of value to Franklin s shareholders for their shares;

- the special committee s belief that the terms of the merger agreement are favorable to Franklin and its shareholders, noting in particular:

  - the fact that, subject to compliance with the terms and conditions of the merger agreement, Franklin is permitted to terminate the merger agreement in order to enter into a permitted alternative acquisition agreement that the board believes in good faith constitutes a superior proposal, upon the payment to Saunders of a termination fee of approximately $650,000 (representing approximately 3% of the total equity value of the transaction), which amount was viewed by the special committee as reasonable in light of the benefits of the merger to Franklin s shareholders and the sale process conducted by Oppenheimer on behalf of Franklin;

  - the obligation of Saunders, subject to the terms and conditions of the merger agreement, to pay Franklin a termination fee of approximately $650,000 (representing approximately 3% of the total equity value of the transaction) if Saunders fails to effect the closing as and when required by the merger agreement; and

the limited number and nature of the conditions to Saunders obligation to close the merger and the limited risk of non-satisfaction of such conditions.

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The special committee also believed the process by which Franklin entered into the merger agreement was fair. In reaching that conclusion, the special committee considered, in addition to the factors described above, the following:

- the fact that the negotiation of the transaction was conducted entirely under the oversight of the special committee. The special committee:
  - consists entirely of directors who are not officers or employees of Franklin, and who will not have an economic interest in Franklin following the merger;
  - was given exclusive authority to, among other things, consider, negotiate and evaluate the terms of any proposed transaction, including the merger agreement, and any alternative; and
  - had ultimate authority to decide whether or not to proceed with a transaction, subject to Franklin s board of directors approval of the merger agreement.
- the fact that the special committee was advised by its own legal and financial advisors who assisted the special committee in evaluating and negotiating the merger;
- the fact that the terms and conditions of the merger agreement were the product of negotiations between the special committee and its advisors, on the one hand, and Saunders and its advisors, on the other hand;
- the absence of any bid competitive with Saunders going private proposal despite Saunders public announcement of such proposal and a sale process during which 31 potential strategic and financial buyers, not including Saunders, were contacted and four of such potential buyers were provided with a confidential information memorandum inviting the submission of a competing bid.

For the reasons discussed above, the special committee believes that the merger is procedurally fair to the unaffiliated shareholders of the Company despite the fact that the special committee did not retain an unaffiliated representative to act solely on behalf of Franklin s unaffiliated shareholders. In light of the factors described above, and the fact that the use of a special committee of independent and disinterested directors is a mechanism well recognized to ensure fairness in transactions of this type, the special committee, representing a majority of the Company s independent directors, did not consider it necessary to (and therefore did not) retain an unaffiliated representative to act solely on behalf of Franklin s unaffiliated shareholders.

The special committee also took into account a number of potentially adverse factors concerning the merger including, without limitation, the following:

- the risk that the merger might not close in a timely manner or at all, including the risk that the merger will not occur if there is not adequate financing available to Saunders to complete the merger, as well as the costs of a failure to close, including employee attrition and potential negative effects on customer relationships;
- the fact that Franklin is entering into a merger agreement with a newly-formed corporation with essentially no assets and, accordingly, that its sole remedy in connection with a breach of the merger agreement by Saunders, even a breach that is deliberate or willful, is limited to $650,000;

the merger consideration consists of cash and will therefore be taxable to Franklin s shareholders for U.S. federal income tax purposes;

the opportunities for growth and the potential for increased shareholder value if Franklin were to remain an independent company with publicly traded equity securities and the fact that Franklin s shareholders (other than the Saunders Group) will not participate in any future appreciation of Franklin s value;

the fact that, in order for Franklin to terminate the merger agreement to accept a superior proposal, Franklin must, in addition to complying with certain other terms and conditions of the merger agreement, pay Saunders a $650,000 termination fee;

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- the restrictions placed on Franklin s activities prior to closing of the merger as a result of the restrictive covenants included in the merger agreement, which may prevent Franklin from capitalizing on business opportunities that may arise before closing of the merger;

- the fact that Franklin s directors and executive officers have interests in the merger that are different from those of other Franklin shareholders;

- the equity interest in Franklin to be received by the Saunders Group as compared to unaffiliated shareholders receiving all cash;

- the disruption to Franklin s business operations and diversion of management focus and resources from other strategic opportunities because of the pending merger; and

- the fact that under Pennsylvania law, Franklin s shareholders who are opposed to the merger will not have dissenters or similar rights.

The special committee did not consider Franklin s net book value, which is an accounting concept, to be a factor in determining the substantive fairness of the transaction to Franklin s shareholders because it believed that net book value is not a material indicator of the value of Franklin s equity but rather an indicator of historical costs. The special committee also did not consider the liquidation value of Franklin s assets as indicative of Franklin s value primarily because of its belief that the liquidation value would be significantly lower than Franklin s value as an ongoing business and that, due to the fact that Franklin is being sold as an ongoing business, the liquidation value is irrelevant to a determination as to whether the merger is fair to the unaffiliated shareholders of Franklin. The special committee did not consider a going concern analysis because such an analysis requires a valuation of the liquidation value of the Company. The special committee did not consider purchases of the Company s common stock by the Company or its affiliates who are Rule 13e-3 purchasers during the past two years because there were no such purchases. For the same reasons, neither Saunders nor the Saunders Principal Shareholders considered these factors.

The foregoing discussion of the information and factors considered by the special committee, while not exhaustive, includes the material considerations considered by the special committee. In view of the wide variety of the factors considered by the special committee and the complexity of these matters, the special committee did not find it practicable to, and did not, quantify or otherwise assign relative or specific weight or values to any of these factors, and individual members of the special committee may have given different weights to different factors. The special committee approved, and recommended that the board of directors approve, the merger based upon its belief that the positive factors relating to the merger outweigh the negative factors, in light of the totality of information presented to and considered by it.

Reasons for the Board s Recommendation

In reaching its conclusion regarding the fairness of the merger and its decision to approve the merger agreement and the related plan of merger and recommend the adoption of the merger agreement and the related plan of merger by Franklin s shareholders, the board of directors (excluding Messrs. Lipsky, Morgan and Simons who, with the concurrence of the other members of the board of directors, recused themselves from the process and did not vote due to their conflicting interests) relied on the special committee s recommendations and the factors examined by the special committee as described above. In view of the wide variety of factors considered in connection with its evaluation of the merger, the board of directors (excluding Messrs. Lipsky, Morgan and Simons who, with the concurrence of the other members of the board of directors, recused themselves from the process and did not vote due to their conflicting interests) did not find it practicable to, and did not, quantify or otherwise assign relative weights to the foregoing factors in reaching its conclusion. In addition, individual members of the board of directors may have given different weights to different factors and may have viewed some factors more positively or negatively than others. Rather, the board of directors (excluding Messrs. Lipsky, Morgan and Simons who, with the concurrence of the other members of the board of directors, recused themselves from the process and did not vote due to their conflicting interests) viewed its position as being based on the totality of the information considered by it. As part of its determination with respect to the merger, the

board of directors (excluding Messrs. Lipsky, Morgan and Simons who, with the concurrence of the other members of the board of directors, recused themselves from the process and did not vote due to their conflicting interests) adopted the conclusion of the special committee and the analyses underlying the conclusion, based upon its view as to the reasonableness of such conclusion and analyses.

In light of the factors described above, and the fact that the use of a special committee of independent and disinterested directors is a mechanism well recognized to ensure fairness in transactions of this type, neither Franklin s board of directors nor the special committee considered it necessary to (and therefore did not) retain an unaffiliated representative to act solely on behalf of Franklin s unaffiliated shareholders for purposes of negotiating the terms of the merger agreement or preparing a report concerning the fairness of the merger agreement and the transactions contemplated by the merger agreement, including the merger.

Based on the factors outlined above, Franklin s board of directors determined that the merger is advisable and in the best interests of Franklin, approved the merger agreement and the plan merger and determined the merger consideration to be fair to Franklin s shareholders.

Belief of Certain Members of the Saunders Group as to Fairness

In addition, it is the belief of the Saunders Principal Shareholders that the merger consideration is fair to shareholders of the Company other than Saunders. The Saunders Principal Shareholders based their belief that the merger consideration is fair to the shareholders of the Company other than Saunders on the following factors:

- the Company established a special committee comprised of independent directors to evaluate the Saunders proposal and any other proposals the Company received;
- the special committee was empowered to, and did, engage independent financial and legal advisors;
- Oppenheimer contacted 31 parties that it identified as potentially being interested in a strategic transaction with the Company;
- Oppenheimer permitted potentially interested parties to conduct substantial due diligence reviews of the Company;
- potentially interested bidders were encouraged to submit offers to the Company;
- Oppenheimer s process resulted in an increase of Saunders initial offer for the Company; and
- Saunders offer represented a substantial premium over the current and historical market prices of the common stock.

For the aforementioned reasons, the Saunders Principal Shareholders believe that the merger consideration is fair to the shareholders of the Company from procedural and substantive perspectives.

Opinion of Financial Advisor to the Special Committee of the Board of Directors

Franklin has engaged Oppenheimer to act as the financial advisor to the special committee in connection with the merger. In connection with this engagement, the special committee requested that Oppenheimer evaluate the fairness, from a financial point of view, to the holders of Franklin common stock (other than Saunders) of the merger consideration to be received by such holders. On September 30, 2009, at a meeting of the special committee held to evaluate the merger, Oppenheimer rendered to the special committee an oral opinion, which was confirmed by delivery of a written opinion, dated September 30, 2009, to the effect that, as of that date and based on and subject to the matters described in its opinion, the merger consideration to be received by holders of Franklin common stock (other than Saunders) was fair, from a financial point of view, to such holders.

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The full text of Oppenheimer s written opinion, dated September 30, 2009, which describes the assumptions made, procedures followed, matters considered and limitations on the review undertaken, is attached to this proxy statement as Annex C. **Oppenheimer s opinion was provided to the special committee in connection with its evaluation of the merger consideration from a financial point of view. Oppenheimer s opinion does not address any other aspect of the merger and does not constitute a recommendation to any shareholder as to how such shareholder should vote or act with respect to any matters relating to the merger. Below is a summary of Oppenheimer s opinion. Reference is made to the full text of its opinion attached to this proxy statement as Annex C. Holders of Franklin common stock are encouraged to read the opinion carefully in its entirety.**

In arriving at its opinion, Oppenheimer:

- reviewed the merger agreement;
- reviewed audited financial statements of Franklin for fiscal years ended March 31, 2007, March 31, 2008 and March 31, 2009 and unaudited financial statements of Franklin for the four months ended July 31, 2009;
- reviewed financial forecasts and estimates relating to Franklin prepared by Franklin s management;
- held discussions with Franklin s senior management with respect to Franklin s business and prospects;
- reviewed historical market prices and trading volume for Franklin common stock;
- reviewed and analyzed certain publicly available financial data and stock market performance data for companies that Oppenheimer deemed relevant in evaluating Franklin;
- analyzed the estimated present value of the future cash flows of Franklin based on financial forecasts and estimates prepared by Franklin s management;
- reviewed and analyzed the premiums paid, based on publicly available information, in merger and acquisition transactions that Oppenheimer deemed relevant in evaluating the merger;
- reviewed other public information concerning Franklin; and
- performed such other analyses, reviewed such other information and considered such other factors as Oppenheimer deemed appropriate.

In rendering its opinion, Oppenheimer relied upon and assumed, without independent verification or investigation, the accuracy and completeness of all of the financial and other information (including, without limitation, the representations and warranties of Franklin stated in the merger agreement) that is publicly available or was provided to Oppenheimer by Franklin or its employees, representatives and affiliates or otherwise reviewed by Oppenheimer. With respect to the forecasts of future financial condition and operating results of Franklin provided to Oppenheimer, Oppenheimer assumed, without independent verification or investigation, that such forecasts were reasonably prepared on bases reflecting the best available information, estimates, assumptions and good faith judgments of Franklin s management. Oppenheimer assumed, with Franklin s consent, that the merger would be consummated in accordance with the merger agreement without waiver, modification or amendment of any material term, condition or agreement and in compliance with all applicable laws and other requirements and that, in the course of obtaining the necessary regulatory or third party approvals and consents with respect to the merger, no delay, limitation, restriction or

condition will be imposed that would have an adverse effect on Franklin or the merger. Oppenheimer neither made nor obtained any independent evaluations or appraisals of the assets or liabilities (including, without limitation, any contingent, derivative or off-balance sheet assets and liabilities) of Franklin or its affiliated entities. Oppenheimer did not express any opinion as to Franklin s underlying valuation, future performance or long-term viability. Oppenheimer expressed no view as to, and its opinion did not address, any terms or other aspects of the merger (other than the merger consideration to the extent expressly specified in its opinion) or any aspect or implication of any other agreement, arrangement or understanding entered into in connection with the merger or otherwise.

In addition, Oppenheimer expressed no view as to, and its opinion did not address, Franklin s underlying business decision to proceed with or effect the merger, the relative merits of the merger as compared to any alternative business strategies that might exist for Franklin, the effect of any other transaction in which Franklin might engage, the tax or legal consequents of the merger to any of Franklin, its shareholders or any other party, or the solvency of Franklin or any other participant in the merger under any applicable laws relating to bankruptcy, insolvency or similar matters. Oppenheimer opinion was necessarily based on the information available to it and general economic, financial and stock market conditions and circumstances as they existed and could be evaluated by Oppenheimer on the date of the opinion. It should be understood that, although subsequent developments may affect its opinion, Oppenheimer does not have any obligation to update, revise or reaffirm its opinion.

This summary is not a complete description of Oppenheimer s opinion or the financial analyses performed and factors considered by Oppenheimer in connection with its opinion. The preparation of a financial opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a financial opinion is not readily susceptible to summary description. Oppenheimer arrived at its ultimate opinion based on the results of all analyses undertaken by it and assessed as a whole, and did not draw, in isolation, conclusions from or with regard to any one factor or method of analysis for purposes of its opinion. Accordingly, Oppenheimer believes that its analyses and this summary must be considered as a whole and that selecting portions of its analyses and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying Oppenheimer s analyses and opinion.

In performing its analyses, Oppenheimer considered industry performance, general business, economic, market and financial conditions and other matters existing as of the date of its opinion, many of which are beyond Franklin s control. No company, business or transaction used in the analyses is identical or directly comparable to Franklin or the merger, and an evaluation of the results of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, business segments or transactions analyzed.

The estimates contained in Oppenheimer s analyses and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than those suggested by its analyses. In addition, analyses relating to the value of businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, the estimates used in, and the results derived from, Oppenheimer s analyses are inherently subject to substantial uncertainty.

The type and amount of consideration payable in the merger were determined through negotiation between Franklin and Saunders, and the decision to enter into the merger was solely that of the Franklin board of directors. Oppenheimer s opinion and financial presentation were only one of many factors considered by the Franklin board of directors in its evaluation of the merger and should not be viewed as determinative of the views of the Franklin board of directors or Franklin s management with respect to the merger or the merger consideration.

The following is a summary of the material financial analyses reviewed with the special committee in connection with Oppenheimer s opinion dated September 30, 2009. **The financial analyses summarized below include information presented in tabular format. In order to fully understand Oppenheimer s financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Oppenheimer s financial analyses.**

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Selected Companies Analysis

Oppenheimer reviewed financial and stock market information for Franklin and certain publicly held microcap companies in the consumer electronics industry that generally had (i) total annual sales less than $1 billion and market capitalizations under $1 billion, (ii) revenues derived from sales domestically and internationally and (iii) in Oppenheimer s belief, had similar business lines, consumer electronics product offerings or distribution channels common with the Company. The criteria described above was consistently applied by Oppenheimer in determining the list of selected companies, and no company satisfying such criteria was deliberately excluded from such list. The list of selected companies is set forth below:

($ in millions)

Selected Company	Enterprise Value	LTM Revenue	LTM EBITDA	Enterprise Value to Revenue	Enterprise Value to EBITDA(1)
Audiovox Corp.	$ 106.7	$ 578.3	$ 6.1	0.2X	NM(2)
Cobra Electronics	$ 26.6	$ 106.6	$ 1.6	0.2X	NM
Comarco	$ 10.6	$ 16.1	($ 8.6)	0.7X	NM
Group Sense International, Ltd.	HKD 19.6	HKD 746.4	(HKD 45.7)	NM	NM
IGO, Inc.	$ 6.6	$ 69.7	$ 1.9	NM	NM
IDT International	HKD 468.3	HKD 1,720.7	HKD 134.5	0.3X	3.5X
LeapFrog Enterprises	$ 201.6	$ 411.7	($ 30.6)	0.5X	NM
Lexibook Linguistic Electronic Systems	37.8	42.0	1.6	0.9X	NM
Lojack Corp.	$ 54.5	$ 164.4	$ 7.7	0.3X	7.1X
Rockford Corp	$ 12.0	$ 58.6	($ 3.5)	0.2X	NM

(1) EBITDA refers to earnings before interest, taxes, depreciation and amortization

(2) NM refers to not meaningful

Oppenheimer reviewed enterprise values of the selected companies, calculated as fully-diluted market value based on closing stock prices on September 28, 2009, plus net debt, as a multiple of the last twelve months earnings before interest, taxes, depreciation and amortization, referred to as EBITDA. Oppenheimer also reviewed enterprise values of the selected companies on September 28, 2009 as a multiple of the last twelve months revenue. Financial data for the selected companies was based on public filings, publicly available research analysts estimates and other publicly available information.

The calculated multiple ranges were as follows:

Multiple Description	Multiple Range Low	High	Median	Mean
LTM Revenue	0.2x	0.7x	0.3x	0.4x
LTM EBITDA	3.5x	7.1x	5.3x	5.3x

Oppenheimer applied the following selected multiple ranges derived from the selected companies to corresponding financial data for the Company. The selected companies analysis indicated the following implied enterprise value reference ranges for the Company:

($ in millions)

Multiple Description	Selected Multiple Range Low	Selected Multiple Range High	Selected Enterprise Value Range Low	Selected Enterprise Value Range High
LTM Revenue	0.3x	0.4x	$ 12.7	$ 17.2
LTM EBITDA	3.5x	7.1x	$ 4.9	$ 9.9

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Oppenheimer s selected multiple ranges based on a 15% range around the median implied revenue multiple of the selected companies and the low to high implied EBITDA multiple of the selected companies. The selected companies list include only two companies that had meaningful EBITDA multiples. Therefore, Oppenheimer applied the low and high multiple of this group instead of applying a range based on the median.

Financial data for Franklin was based on Franklin s public filings and internal estimates of Franklin s management. This analysis indicated the following implied per share equity reference range for Franklin, as compared to the per share merger consideration:

Enterprise Value as Multiple of Last Twelve Months EBITDA

Implied Per Share Equity Reference Range for Franklin	Per Share Merger Consideration
$1.41 - $1.97	$2.50

Enterprise Value as Multiple of Last Twelve Months Revenue

Implied Per Share Equity Reference Range for Franklin	Per Share Merger Consideration
$2.28 - $2.77	$2.50

Discounted Cash Flow Analysis

Using projections for 2010 through 2014 provided by the management of Franklin, Oppenheimer performed a discounted cash flow analysis to calculate the estimated present value of the standalone unlevered, after-tax free cash flows that Franklin could generate. To calculate the value of the Company for the cash flows produced after 2014, the terminal value, Oppenheimer assumed perpetual growth rates of 0.0% to 2.0% for the projected cash flows subsequent to 2014, which were based on Franklin s historical performance. Oppenheimer did not consider industry average growth rates in connection with the discounted cash flow analysis because it used the Company s historical performance as the basis for the assumed perpetual growth rates. The cash flows and terminal values were discounted to the present value using discount rates ranging from 18.0% to 20.0%, which were based on the discount rates for the companies identified in the selected companies analysis. This analysis indicated the following implied per share equity reference range for Franklin, as compared to the per share merger consideration:

Implied Per Share Equity Reference Range for Franklin	Per Share Merger Consideration
$2.60 - $2.99	$2.50

The projections provided by Franklin s management for the Company s free cash flows, along with Oppenheimer s analysis of such cash flows described above, are set forth herein under the heading ***Financial Projections provided to Oppenheimer***.

Financial Projections provided to Oppenheimer

The Company s management provided the following financial projections to Oppenheimer in July 2009 in connection with Oppenheimer arriving at its fairness opinion. The financial projections were prepared by Mr. Musto with input from Messrs. Lipsky and Hokari.

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Projected Free Cash Flows for Fiscal 2010 to 2014

Fiscal Year End 03/31	9 Mos 10	2011	Projected 2012	2013	2014
Revenues	$ 36.3	$ 52.2	$ 57.5	$ 57.9	$ 58.4
EBITDA	3.7	5.6	8.7	8.4	8.1
Less: Depreciation	(0.7)	(1.7)	(1.7)	(1.7)	(1.7)
Less: Amortization	(0.8)	(0.4)	(0.4)	(0.4)	(0.4)
EBIT	2.2	3.5	6.6	6.3	6.1
Less: Income Taxes @ 39.5%	(0.9)	(1.4)	(2.6)	(2.5)	(2.4)
Unlevered After-Tax Income	1.4	2.1	4.0	3.8	3.7
Plus: Depreciation	0.7	1.7	1.7	1.7	1.7
Plus: Amortization	0.8	0.4	0.4	0.4	0.4
Less: Capital Expenditures	(1.2)	(1.5)	(1.5)	(1.5)	(1.5)
Less: Working Capital Investment	(1.8)	(0.8)	(0.9)	(0.1)	(0.1)
Free Cash Flow	($ 0.2)	$ 1.8	$ 3.7	$ 4.3	$ 4.1

Terminal Value Based on Free Cash Flow	0.0% Perpetuity Growth Rate			1.0% Perpetuity Growth Rate			2.0% Perpetuity Growth Rate		
Perpetuity Growth After Year 2014	**18.0%**	**19.0%**	**20.0%**	**18.0%**	**19.0%**	**20.0%**	**18.0%**	**19.0%**	**20.0%**
Discounted Free Cash Flows 9 Mos 10 2014	$ 7.7	$ 7.5	$ 7.3	$ 7.7	$ 7.5	$ 7.3	$ 7.7	$ 7.5	$ 7.3
Discounted Terminal Value	10.0	9.1	8.3	10.7	9.7	6.8	11.5	10.4	9.4
Enterprise Value	17.7	16.5	15.5	18.4	17.2	16.1	19.2	17.8	16.6
Less: Debt, Preferred & Minority Interest @ 07/31/09	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Plus: Cash @ 07/31/09	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9
Implied Equity Value	$ 24.6	$ 23.5	$ 22.5	$ 25.3	$ 24.1	$ 23.0	$ 26.1	$ 24.8	$ 23.6

Equity Value Per Share Based on Perpetuity Growth

Discount	Terminal Growth Rate		
Rate	**0.0%**	**1.0%**	**2.0%**
18.0%	$2.83	$2.91	$2.99
19.0%	2.71	2.77	2.85
20.0%	2.60	2.65	2.72

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Historical and Projected Income Statement

($ in millions)

	Actual				Projected		
Fiscal Year End 03/31	**2008**	**2009**	**2010***	**2011**	**2012**	**2013**	**2014**
Sales	$ 60.6	$ 46.8	$ 47.0	$ 52.2	$ 57.5	$ 57.9	$ 58.4
Cost of Goods Sold	28.7	24.0	23.4	26.0	28.7	29.0	29.2
Gross Profit	31.9	22.8	23.6	26.2	28.8	29.0	29.2
Operating Expenses	25.7	23.6	19.2	20.6	20.2	20.6	21.1
EBITDA	6.2	(0.8)	4.4	5.6	8.7	8.4	8.1
Depreciation & Amortization	3.2	3.1	2.0	2.1	2.1	2.1	2.1
EBIT	3.1	(3.9)	2.4	3.5	6.6	6.3	6.1
Interest Expense (Income), net	(0.1)	0.4					