REGENERATION TECHNOLOGIES INC
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Subject Company: Regeneration Technologies, Inc.
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Forward Looking Statements

This communication contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include but are not limited to statements about the expected benefits of the business combination involving Regeneration Technologies, Inc. and Tutogen Medical, Inc., including potential synergies and cost savings, future financial and operating results, and the combined company s plans and objectives. In addition, except for historical information, any statements made in this communication about Tutogen s anticipated financial results, growth rates, new product introductions, future operational improvements and results, regulatory approvals or changes to Tutogen s agreements with its distributors also are forward-looking statements. Forward-looking statements are subject to risks and uncertainties, including the ability of Regeneration Technologies and Tutogen to integrate their businesses successfully and to realize the expected synergies and cost savings from the merger and the risks described in Tutogen s public filings on file with the Securities and Exchange Commission. Actual results may differ materially from anticipated results reflected in these forward-looking statements. Copies of Tutogen s S.E.C. filings may be obtained by contacting the company or the S.E.C. or by visiting Tutogen s website at www.tutogen.com or the S.E.C. s website at www.sec.gov.

Important Additional Information and Where to Find It

The proposed merger will be submitted to the respective stockholders of Regeneration Technologies and Tutogen for their consideration, and Regeneration Technologies and Tutogen will file a registration statement, a joint proxy statement/prospectus and other relevant documents concerning the proposed transaction with the S.E.C. Shareholders are urged to read the registration statement and the joint proxy statement/prospectus regarding the proposed merger when it becomes available and any other relevant documents filed with the S.E.C., as well as any amendments or supplements to those documents, because they will contain important information. You will be able to obtain a free copy of the joint proxy statement/prospectus, as well as other filings containing information about Regeneration Technologies and Tutogen, at the S.E.C. s Internet website (http://www.sec.gov). You will also be able to obtain these documents, free of charge, at Regeneration Technologies website (http://www.rtix.com) or Tutogen s website (http://www.tutogen.com). Copies of the joint proxy statement/prospectus and the S.E.C. filings that will be incorporated by reference in the joint proxy statement/prospectus can also be obtained, without charge, by directing a request to Thomas F. Rose, Vice President and CFO, Regeneration Technologies Inc., PO Box 2650, Alachua, FL 32616 or to L. Robert Johnston, CFO, Tutogen Medical, Inc., 13709 Progress Blvd., Box 19, Alachua, FL 32615.

Regeneration Technologies and Tutogen, and their respective directors and executive officers, may be deemed to be participants in the solicitation of proxies from the stockholders of Regeneration Technologies and Tutogen in connection with the proposed merger. Information about the directors and executive officers of Regeneration Technologies and their ownership of Regeneration Technologies common stock is set forth in the proxy statement, dated March 30, 2007, for Regeneration Technologies annual meeting of stockholders, as filed with the S.E.C. on a Schedule 14A. Information about the directors and executive officers of Tutogen and their ownership of Tutogen common stock is set forth in the proxy statement, dated February 5, 2007, for Tutogen s annual meeting of stockholders, as filed with the S.E.C. on a Schedule 14A. Additional information regarding the interests of those participants and other persons who may be deemed participants in the merger may be obtained by reading the joint proxy statement/prospectus regarding the proposed merger when it becomes available. You may obtain free copies of these documents as described in the preceding paragraph.

The following is the presentation for the Joint Analysts call by Regeneration Technologies, Inc. and Tutogen Medical, Inc. held November 14, 2007.

EXPLANATORY NOTE

This transcript was mistakenly identified on our prior 425 filing, SEC Accession No. 0001193125-07-248692, on November 15, 2007 as the transcript of the Stephens Inc. Fall Investment Conference held on November 14, 2007.

REGENERATION TECHNOLOGIES, INC.

Moderator: Brian Hutchison

November 14, 2007

11:00 am CT

Coordinator:	Good morning and thank you for standing by. All participants will be in a listen-only mode for the duration of today s conference. This conference is being recorded. If you have any objections, you may disconnect at this time.
	I would like to introduce your conference host, Mr. (Louie Cintrone). Sir, you may begin.
Man:	Excuse me?
Brian Hutchison:	(Unintelligible) describe what we think is a very, very exciting change in the business. So today I am - myself - Guy Mayer is here as well. I m Brian Hutchison. For those of you that don t me, I m the Chairman of RTI.
	Guy Mayer is here, CEO and President from Tutogen. Tom Rose, our CFO from RTI is here as well. And then I m going to go - we re going to go through a presentation - myself and Guy and actually Tom as well.
	Now there s only about 10 or 15 slides here. We ll go through those and then we re going to open up to Q&A. When we do, two people from our IR staff at RTI are here. Many of you talk to them anyway - Wendy Wacker and Courtney Holmes, are here and they ll walk around with a microphone.

This is being web cast, so we want you to use the microphones so that the people out - that are not here can hear it.

So there are two forward-looking statements. There s our normal one and then our - what I wanted to say during this period of time before we close this merger, there has to be a much longer one, which I m not intending to read but it essentially says there ll be a whole lot more materials coming your way by proxy and of course, you understand all the filing rules.

Anything we do publicly will be filed the day it happens. So you ll see lots of materials come up. So there s the really long one. Feel free to read that if you like and I ll step out of the way of that thing.

Okay. As many of you or all of you saw yesterday, we made an announcement that Regeneration Technologies and Tutogen Medical are going to merge and we made that agreement after careful consideration and lots of work involving lots of inside and outside folks.

But we really believe this is an extremely compelling story and I think you ll see that in what we say today, but I think you ll see it more as this comes together in the results of the combined company. It s very, very exciting.

So the terms of the deal, this is a tax free stock for stock exchange. Tutogen shareholders will receive 1.22 shares of newly issued RTI common stock in exchange for each share of Tutogen common stock that they own.

We expect the timing of this to be completed in Q1 of 2008, give you a frame of reference. The lawyers tell me as early as March 1, as late as April 15 - sort of out of our hands. We re really going through the process to try and get regulatory approvals, both US and in Europe, and then go through the normal SEC and Box D type things.

Pro forma ownership at the end of this is RTI shareholders will own 55% of the combined company - Tutogen shareholders 45%. And 56 million shares outstanding. I think I hear that - I hear frequently that both stocks were relatively thinly traded, so this should be good news.

So really the combined company will be the leading provider of sterile biologic solutions for patients around the world, reaching a very broad range of markets through a diversified mix of implants and distribution channels.

Really a great opportunity here for synergies, which myself and Guy spent a lot of time talking about. We will be headquartered in Alachua, which is near Gainesville and I would take this point in time to tell many of you both of us are there.

We welcome visitors. If you want to come down, you can orchestrate it through Wendy and Courtney. We would be very happy to host you and as the weather turns ugly up North, it feels really nice in Florida. So we welcome you.

Approximately 750 employees to begin with. Leadership, as was stated in the Press Release, I ll continue as Chairman and CEO. Guy will be President of the combined company. Primarily his focus is going to be on the sales marketing side and internationally - well I would say globally.

He s going to be leading where we go and driving our channel. Tom Rose will continue as CFO and Bob Johnston, many of you know is the CFO of Tutogen. He will continue in a VP level of finance section of the business.

The Board of Directors will be a total of 12. All seven RTI Directors will remain. I think Tutogen has a total of eight Directors today. Five of those will come into the new company, including Guy so the Board will have myself and Guy. So it ll be us plus ten other members.

The strengths really combined Tutogen s strengths in the tissue membrane market. We call it that and you may hear it dermis (mere), skin base. It s more than that so we call it tissue membrane.

And expertise in xenografts, which they ve got a long history with. And then it combines with RTI s strengths and leadership in orthopedics and sports. Really, one of the real key strengths not to miss is the company will own both BioCleanse and TutoPlast, which are the only two validated sterilization systems for tissue.

Benefits of the merger continued its diversification of markets for both of us. If you know both companies, you know the markets we play in. If you add them together, there s a lot more balance in the company and it s a lot stronger company.

It will allow us to accelerate growth in the xenograft product, which are going into several marketplaces. And it really combines two extremely strong tissue recovery networks.

RTI has been very strong in the United States. Tutogen has been building in the United States. They are very strong outside the United States. They are the strongest in the world outside of the US.

And it brings together two very good management teams. The two years Guy has done a fantastic job building a management team which he can tell you a lot more about.

With this, I ll turn it over to Guy and he can talk about a little bit of where we re at.

Guy Mayer: Thank you, Brian. I have to start by saying I m excited about this opportunity of seeing a merger of two companies come together. It s coming together, I believe, at the right time.

A lot of changes have taken place at both companies, you know, over the last three or four years to position, you know, the companies for what I think will be a very successful merger.

It is amazing when you look at these two companies how much synergy there is and little overlap in terms of market. But, you know, it s also amazing that, you know, the two companies strategy to the market is very similar.

So it s not bringing two organizations and needing to undo what one has done. It s really building, you know, on the success of both. So when you look at the implant segment that we re in, you know, you can see RTI s strength is fine, and sports medicine, with little business going through the international business.

And they also have, you know, demineralized bone matrix products that we don t have at Tutogen. Tutogen has really focused on the dental side, very little in spine through Zimmer.

We - it s less than 10% of our business and then we re in urology, ophthalmology, very importantly in hernia repair which is a large market opportunity for us, and in breast reconstruction.

And we have a very large international component. And no secret, you know, Tutogen started as an international based business, but we have 130 some people outside the US brand new manufacturing facility in Germany.

More importantly, we have ten years of building licenses and regulatory approvals outside the US. We have the channels in place so that we can now start looking at the product portfolio, you know, that RTI has and putting that through existing channels.

So the international opportunity, I think, is very real. So the combined company is, you know, as Brian was showing much more balanced in terms of now 32% in spine, 16% in sports med, dental, you know, at 17%.

And then we ll start seeing the surgical specialty businesses being broken out when we start looking at growth rates, you know, that we re currently seeing in hernia repair and breast reconstruction. That, I think, will be very good for the company.

So again when you look at the market segments, you know, it is astonishing, you know, how little, you know, duplication there is. You know, one could say, you know, we compete in spine and one could say that with the sales that we have in spine, we don t compete in spine.

But I think it s a real opportunity for the companies to leverage. Brian talked about tissue sourcing. When you think of tissue sourcing, you source different tissues for these different opportunities.

So when you look at the tissue sourcing organizations that we both have, our focus has been on our own businesses. Now we can turn those tissue sourcing organizations and sourcing, you know, for the entire business.

So I, you know, I want to emphasize this as a, you know, this is a significant opportunity for the combined business to really take advantage of the infrastructure and investments that have been made in tissue sourcing organizations, you know, to support a broader, faster growing business.

Key distributors - again, we ve had a lot of concentration in our past history, you know, with RTI having soft (mordanic) at 60% of the total sales. Important changes have happened in the last six months in clearing the way, you know, for growth of the spine and other businesses.

You know, a strong business as well in sports medicine with the direct franchise. Outside of the direct franchise of sports medicine, our marketing, you know, philosophy has been the same. So there s no you know, there s no overlap in philosophy.

And on the Tutogen side, 58% going through Zimmer with dental and spine, with a 28% international piece. If you look at the combined company, again, you know, much broader, less concentration, soft (mordanic) being (37%) of the new business, Zimmer at 22%.

The international component becomes 14%. And then this other is a big number, this 27% and I know we ve been asked a lot of questions from, you know, investors and analysts that eventually we ll start breaking that down, this 27% and make more sense out of it so that people can see what is going on especially in the hernia repair segment, in the sports medicine segment, and the breast reconstruction side.

So a combined - and I was just talking to Tom. Tom gave me permission to talk about financial highlights before I go to the next slide. But strong Balance Sheet - $30 million plus in cash, very little debt accretive to GAAP earnings.

We ve identified $5 million to $6 million in cost savings, so we think these cost savings, you know, are frankly readily, you know, available. We have a lot of duplicative costs in being two public companies.

And we have, you know, the wonderful opportunity of being in the same parking lot. So bringing the companies together is, you know, is not a physical challenge in any way.

So the other thing we haven t talked about, we re not going to quantify it at this point in time, but there is significant revenue enhancement opportunities especially when you go back to the comment I made earlier that you take both recovery agencies and have them focus on the entire business rather than just our own segment.

Xenograft growth is important. We sell - Tutogen sells $6 million in xenograft outside the US. We have good experience in xenograft. RTI has been building xenograft business in the US - facility (closed heard).

Now we can now take our combined, you know, experience and, you know, really drive our xenograft strategy both in the US and outside the US throughout our portfolio.

We have - we both have five 10-Ks that are filed in different areas - in spine, in hernia repair, in dental. These are products that are going to hit in 2008 and we ll have more information on that as we move forward.

So again, you know, expanding internationally we have - you know, we have the facility in place. We have the people in place. We have the infrastructure from a distribution channel in place with over 40 distributors.

I think a great opportunity for us as well as with our tissue sourcing, which is well-established outside the US.

So the investment highlights - I think we re bringing together two very experienced management teams. I can tell you that there is not a single person in either management team that is not excited and involved in this transition.

So I think we will have, you know, frankly a very, very strong management team going forward.

Large growing markets, superior products, proprietary validated sterilization processes that we will use, you know, for our products based on cost effectiveness and suitability of the process to the product.

Broad distribution opportunities, improved tissue sourcing which is always important and the strong Balance Sheet.

With that, let me turn it back over to Brian.

Brian Hutchison: You can see Guy fits in already with us. You know, he kind of knows just to keep going so it works out really well. We re putting up the company information. That s posted on almost every public document we have so you can get a hold of both people, both companies to try to find out what s going on.

And I will tell you, you can link to a lot of this information through our Web site as well. There ll be a portal that s opened up so you can get their from either company s Web site.

That, I think, is it. So we ll open up for questions. Yes, sir. Could you ask that through that microphone, please?

Man: Can you give us example in terms of the distributors? For instance, the - in spine, you have the initiative with Zimmer there that you started, but obviously you re much stronger in spine on the RTI side.

So how does that work out, that you - the Zimmer initiative is just lessened or dropped and do those things (unintelligible)

Brian Hutchison: I ll start and then Guy can add on. They re - we re not dropping anything. Tom always talked to (Robbie Lane), who leads the spine effort of RTI about getting more partners and then Guy talked about the enhancements in bringing tissue together.

We ll look at Zimmer spine as just another partner and we have the capabilities to make more implants for them, drive more to them. Both companies have a good relationship with Zimmer.

We expect to exploit that and continue to build. Guy will lead all of those relationships. I m sure he hasn t figured out exactly how he s going to do that yet because we ve got people to put together from both companies.

But we ll continue to build relationships. Do you want to add to that, Guy?

Guy Mayer: Let me just add that, you know, if you look at RTI as well, they ve just gone into a relationship with Zimmer on the bone (pace) side, which is a product that we just didn t have.

So the relationship is already established there as well. We ve talked about, you know, all of our product pipeline in spine that we are developing. Well some are products that we may not have to put resources in developing, but they will already exist in the new portfolio.

So we ll be able to take really advantage, you know, of Zimmer as a distribution channel as well.

Man: No exclusivity conflict that you see in - across the portfolio with distributors?

Brian Hutchison: We don t see any. As Guy said and I ve probably indicated over time today, this wasn t possible until we changed our Medtronic relationship. That was the only agreement that was in the way of anything.

We have the capabilities of servicing all of the relationships we have as a combined company. So I don t see any issues at all.

Man: What will you do with some of the, you know, overlapping products? So for instance, I know that (unintelligible) working on a number of (unintelligible) bone products that compete directly with what you have. Will you just essentially wipe them out or how are you going to deal with that?

Guy Mayer: The question is for new product development for any machine bone grafts, or for instance any patches that we re working on, those will - those product ideas won t be dropped.

They ll be given to the proper team, whichever team it might be, and that team will have to integrate it into their portfolio plan. So if it s sports medicine, that s quite easy. They know their customers and they ll select a product and move on.

If it is a spinal customer, we have to determine in there - we have a matrix of products, cervical grafts, lumbar grafts, those kinds of things - and then a matrix of customers where they can go.

So - and then it would - then you would go to, is it the customer s design or is it Tutogen s design? So there are a lot of decisions that will have to made, but I don t intend to drop anything.

We are going to try to continue to grow and accelerate.

Man: (Unintelligible).

Man: You mentioned on the call yesterday in terms of plant capacity between the two companies and you mentioned that Tutogen was facing a, you know, busting at the seams, I think was the term that was used.

And your capacity is running at about - the RTI is about 50% or something like that. I was just a little confused because Guy, you did a big build out for capacity and I was just surprised to hear that that was kind of built at certain segments that are filled - or is there additional capacity at your plant that s still there to be used?

Guy Mayer: In the US we built a new plant within the infrastructure that we have. So we built new clean rooms. And we have clean room capacity to process our products.

But as we ve been growing, we ve gone from 37 to 105 people in the span of about 18 months, so we ve been busting at the seams trying to find lab space, office space.

And frankly, the question - you know, the discussion yesterday was, you know, with 50% capacity, you know, utilization, you know, within RTI right now, with an older plant that we re in that all our leases expire in January of 2009 - there is just great opportunity and synergy, and utilization of capacity that exists within the combined organization.

Brian Hutchison: I would add if you ve not been down to see our two facilities, come on down and you ll see. When RTI went public, they used the funds - this was right before I got there - they used the funds to build a campus of buildings that s about 165,000 square feet of world class bio pharma type equipment.

It s a beautiful plant and we just have never gone into it. So - and Guy s actually in the same building where RTI started. Their leased multi-purpose buildings - I m sure you can imagine what they look like.

And they ve done a good job building out what they have, but in leased facilities you keep - you re in that same sink all the time.

Tom Rose: Brian?

Brian Hutchison: Actually we re - one of the funny things is we re actually in that same building. He calls all the time - hey can you - are you guys done here? Tutogen needs more space. And you want to add something, Tom?

Tom Rose: Yeah, let me just add to that. When RTI talks about 50% of our capacity in our plant in Florida, for those of you who don t know RTI well, we ve always estimated that our plant has the ability to produce product to be equivalent of 200 million plus in revenue.

And as currently we re - the analysts have us pegged for about 93 million this year. So again, significant room to bring in the majority of Tutogen s processing into our facility and still have room to grow in the next few years.

Man: Brian, I just wanted to ask about - on the revenue side, you ve talked about sourcing, you know, better realizing the sourcing opportunities in the (unintelligible) organizations separate procurement - issue procurement networks being an opportunity.

And that takes time to turn on and ultimately, the process to turn into revenue. And so I m wondering if the work out there with your procurement organizations can only begin after the merger is completed, say in March or April?

Or do you expect that you can begin to do some of that work ahead of time?

Brian Hutchison: Conference - I will tell you conference calls started yesterday. So

Man: With suppliers. So for instance to get more dermis out of your

Brian Hutchison: You re right. It s a long process to change. So the calls began yesterday. I know Tom got a couple of calls back from people he knows in the industry. (Roger Rose), who runs the donor organization for RTI has been in contact with his entire organization.

As you know, we have hundreds of relationships in the US. He s been in contact with all of them. Really at this stage, it s just setting up the process that ll take months.

You re exactly right. It takes time, which is why Guy and Tom, and I have all said we can t talk about what the upside revenue synergies are today. Just understand we believe them to be very large.

And what we ve said earlier today is we believe that through all of what s going on, we can actually enhance the growth rate of both companies product lines by coming together.

So at the end result, the revenue growth will be higher than either of standalone.

Man: So you re beginning to meet with people and talk about it? When it comes to decisions that require you to spend money, put capital out there like for instance fighting (dermatomes) over - that haven t been harvesting before - again, is that the kind of activity that can happen before the merger is formally consummated or does that need to wait?

Brian Hutchison: It - I mean, it s hard to say. We ll pace it and we ll take each decision independently. If we get an opportunity to increase dermis coming in, we ll do that.

We re not going to forcibly wait until the merger is complete if we can do it. Certainly a lot of factors that weigh into that every time you do it. And every time we do that, these folks need to be involved because they go out and train.

A lot of the dermis that they would like to see comes in freehand, which is a technique his people train on.

Man: All right, I guess this is a question for Z - for Guy. How long is Zimmer contractually obligated across the different segments? Do you have any idea if they re going to - if they re staked longer?

Guy Mayer: The agreements that we have with Zimmer were ten year agreements that were struck with (Sulsar Medico) before they acquired (Sulsar). All those agreements expire in 2010.

In terms of Zimmer s stake and I m assuming you re talking about their stake in the company, I have no idea what their long term plans are. I did say yesterday that I ve had discussions with executive management at Zimmer and that, you know, I m led to believe that they will - that they are very supportive and will be supportive of the transaction.

Brian Hutchison: And I would add to that for those of you that don t know Guy, Guy - many of you know from me - my experience. I grew up in (Stryker Corporation) over a long period of time. I ve been in this industry now six years.

Guy, for a long period of time, grew up in the Zimmer organization. So we have deep ties into both companies and we certainly try to use those to the best of our ability when we can.

But I will tell you early feedback from my folks talking with Zimmer is they re very excited. They see this as only upside and they re very excited. So I don t see it as a downside for them either.

Man: Could you speak to the competitive landscape in terms of these combined companies? It seems that you re going to have the broadest product portfolio and the broadest distribution partners versus your competitors.

You re probably going to be next to life sell, I guess the second biggest as far as that goes. So what are the advantages and disadvantages to a very broad portfolio like this?

Brian Hutchison: Okay. Number one I wish I had one of the slides the bankers gave us because it showed exactly that from a market cap basis and a revenue basis. You are exactly right. We will be the number two player behind life sell.

And based on 2007 revenue, we - I don t know exactly where they re pegged - 180, 190, something like that. I think our combined companies are pegged at 150 maybe, something like that.

We certainly expect to see rapid growth and I can t predict what they re going to do, although they ve been on a hell of a terror so I wouldn t assume it s going to stop.

We ll continue to be a strong number two, trying to build our position as we go. Personally I like the balance of the portfolio. I really do because you re not dependent on one customer. You re not dependent on one segment.

We need to have resources to develop products for all the segments, but I m quite happy with that. We can set them up as business units and they will perform and they ll be measured. And they ll be growth targets.

And it gives us a way to develop young talent. And I m very excited about that. I think it s going to be great. I m not afraid of it at all.

Guy Mayer: Yeah. I would just add that, you know, if you look at, you know, the broad base of competition that - or the fields that we re going to be in, you know, we re sourcing a lot of different tissues.

So we are not concentrated on one tissue, you know, going forward. I think that mitigates a lot of risk in the organization. The other thing is because we source a lot, you know, a broad range of tissue, that ll be attractive to the tissue processors in dealing with one company, you know, that can really, you know, take, you know, a broad range of tissue from them, and help them in their mission of getting these tissues to medical devices.

So I think there s a benefit, you know, on that side as well. Being broad and being large, to me, is also absorption. And it s just going to be, you know, on the financial side something that should be very positive to the new call.

Man: Speaking with that, as you combine these companies on the financial side, obviously the hopes are growth, but also margin expansion. Is there any guidance you can given on an inflection plan?

Like life sell after a certain point just got thrown off - credible profitability in cashes. What do you guys envision in that type of scenario going forward?

Tom Rose: Well from the RTI perspective, we re going through a period as our revenues grow where we re seeing the significant leverage of our fixed costs. So we ve talked publicly that our incremental gross margins right now are in the 65, 70, 75% range.

And that s going to continue. As we bring in and merge with Tutogen, I mean, their margins currently are in the 60% range and we believe that through the integration many of the synergies are going to help improve those margins - not quantifying that at this point in time.

But there s no reason why the Tutogen revenues won t benefit in the future from some of our fixed cost leverage as well.

Man: Could you compare the xenograft strategies of the two companies and how it changes, if at all, under a combined company?

Brian Hutchison: Sure. I ll give it to you from my perspective and I m sure Guy will - unless, Guy, do you want go first on that one? Yours is bigger than mine.

Guy Mayer: Just, you know, our xenograft strategy has been an international strategy until now. So our experience has been international sales and mostly across, you know, mostly across soft tissue.

And, you know, our strategy in the US was that 2008 strategy just starting. And, you know, and I think that folks at RTI have actually, you know, started implementing a strategy in 2007.

And, you know, and stronger on the bone side of the strategy. So I think the strategies may be very complimentary as we execute them.

Brian Hutchison: I would agree. It s a real tremendous opportunity for us to lever ahead and go stronger forward. It really rounds out the strategy. It lets us really push further, create data.

We have some approvals of products that can be pushed right to - right through the distribution network they have. We have (CE mark) on 12 implants.

Little known secret we found out during due diligence, they re implanting bone in the spine in Europe and have been - and have great data. So that s good.

We have implants that we have approved in Europe. We can get there soon and get going. So lots of opportunity. We think that the xenograft opportunity is very, very compelling.

We do expect to run production, both in the US and in Europe. And we do expect - they already have TutoPlast in Europe which works great on certain tissues. We expect to bring BioCleanse there as well, so we ll do both.

Man: Just applying a little bit of Murphy s Law as far as the transition and integration are concerned. What are the issues that you see are possible as stumbling blocks and the timeframe of what s involved in an integration despite the advantages physically and otherwise?

Brian Hutchison: Well first of all we have to go through the hurdles and you can never predict what hurdles you re going to run into at the regulatories as far as getting this approved.

So that s where our focus is today. Once we get closer to this, we ll start forming an integration team and really get working on it. We certainly have ideas about how this goes.

But in terms of hurdles, I really don t - at this time I don t see any significant hurdles in front of us that are going to get in the way of us doing this. I ve got lots of experience in my old (Stryker) days of doing this exact kind of work and I know what to look for.

And we re already starting to look. So I don t see any significant issues that are going to jump at us. Certainly on the marketing and sales side, Guy has got his hands full really getting out there and getting the message out, and making sure everybody s not just comfortable but directed for growth because when you re trying to grow as fast as we are, that creates a lot of opportunities and friction, and things like that.

Man: Guy, could you just describe your role in a little more detail in terms of your head of sales on the international division? Where are you based? What are you doing?

And, you know, you do have your background with Zimmer. You were (head) of the sales force there and what is - how are you involved in also in terms of strategic directions for the company?

Guy Mayer: Yeah. Actually somebody asked me the question earlier saying so are you retiring, you know? Well the answer is no and to give comfort I said I just bought a house in Florida, in Gainesville this summer, while we were talking.

So I m - you know, I m absolutely committed to, you know, this new company going forward. You know, we ve got a lot of things to talk about as - Brian and I as we go forward.

The discussion to date, you know, have been, you know, let s look at each other s, you know, strength and background. And certainly I grew up on the sales and marketing side and the sales and marketing strategy side.

So we started talking about, you know, I ll head up, you know, sales and marketing on a worldwide basis. The direct sales force, you know, in the US in sports medicine is under (Roger Rose).

And they have tremendous momentum and I don t think they need any distraction from me. So that will not report to me as we go forward. You know, so that s a good business.

But the sales and marketing worldwide - so I ll be working, you know, with Brian on that, on the strategy of the sales and marketing side, as well as the international operation will report to me.

Brian Hutchison: And he does have tremendous experience there. He lived overseas for quite a bit of his career. So that combination really does work and works well. And it ll work fine.

He s also on the Board of Directors. I wouldn t lose focus on that. Our Boards are active. Pretty good.

Man: (Unintelligible) know (unintelligible) thing that you coverage?

Guy Mayer: Well, you know, I think that, you know, the biggest cross-selling opportunity is probably on the spine side. You know, and we were talking about earlier - we were, you know, developing products for the next two or three years and some of these products may already exist, you know.

So we can do that. Internationally, you know, taking the existing, you know, portfolio and putting that through our international market. That s obvious opportunity.

We have great partners, you know, on all fronts and it s really leveraging those partners now with better tissue sourcing. You know, I imagine that, you know, my conversations with our distribution partners, you know, that we have today is going to be nothing but positive as I think that, you know, it s good for them that we all win with this combination.

Brian Hutchison: Any other questions? If not, we ll let everybody get back to the conference. Once again, (Shawn), thanks a lot for letting us interrupt your conference. And great. Take care, thank you.

END

> 8,269

See notes to consolidated financial statements.

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FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

(in thousands, except for share data)

	Common Stock				Accumulated	
				Retained	Other	Total
			Additional	Earnings /	Comprehensive	Shareholders
	Share	Amount	Paid in Capital	Deficit)	Income *	Equity
BALANCE - MARCH 31, 2009	8,273,936	$ 83	$ 51,255	$ (29,212)	$ (1,394)	$ 20,732
Amortization of deferred compensation expense for shares and options issued for services			192			192
Issuance of common shares under employee stock option plan	109,638		12			12
Income for the period				970		970
Foreign currency translation adjustment					524	524
BALANCE - DECEMBER 31, 2009 (unaudited)	8,383,574	$ 83	$ 51,459	$ (28,242)	$ (870)	$ 22,430

* Comprehensive income, i.e., net income, plus, or less, the change in foreign currency balance sheet translation adjustments, totaled $1,494 for the nine months ended December 31, 2009.

See notes to consolidated financial statements.

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FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

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CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended December 31, 2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME (LOSS)	$ 970	$ (663)
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Depreciation and amortization	1,510	2,069
Provision for losses on accounts receivable	89	98
Gain on disposal of property and equipment	32	1
Non cash compensation	192	146
Source (use) of cash from change in operating assets and liabilities:		
Accounts receivable	(3,021)	(2,727)
Inventories	(1,226)	452
Prepaids and other assets	132	492
Accounts payable and accrued expenses	(1,633)	(901)
Deferred revenue	1,566	1,001
Other, net	(17)	39
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(1,406)	7
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(277)	(207)
Proceeds from sale of property and equipment		13
Software development costs	(558)	(765)
Change in other assets	(40)	(114)
NET CASH USED IN INVESTING ACTIVITIES	(875)	(1,073)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common shares	12	6
Other liabilities	78	(95)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	90	(89)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	522	(350)
DECREASE IN CASH AND CASH EQUIVALENTS	(1,669)	(1,505)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	12,013	11,824
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 10,344	$ 10,319

See notes to consolidated financial statements.

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FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, in thousands)

Reference is made to the financial statements included in the Company s Annual Report (Form 10-K) filed with the Securities and Exchange Commission for the year ended March 31, 2009.

The financial statements for the periods ended December 31, 2009 and 2008 are unaudited and include all adjustments necessary to a fair presentation of the results of operations for the periods then ended. All such adjustments are of a normal recurring nature. The results of the Company s operations for any interim period are not necessarily indicative of the results of the Company s operations for a full year.

OPERATIONS

The Company s operating results are reported by geographical segments. The Company s profit and loss segments are reviewed by the chief operating decision maker of the Company. The assets are reported as one segment, and reported on an aggregate basis. The profit and loss information is provided below:

Quarter ended December 31, 2009	**North America**	**Europe**	**Other International**	**Other Domestic**	**Corporate**	**Consolidated**
Sales	$ 6,354	$ 4,472	$ 1,875	$ 638	$	$ 13,339
Cost of sales	3,458	2,018	887	28	384	6,775
Gross margin	2,896	2,454	988	610	(384)	6,564
Operating expenses:						
Sales and marketing	1,646	1,011	288	92	581	3,618
Research and development				101	371	472
General and administrative	35	302	97		1,062	1,496
Acquisition related expenses					218	218
Total expense	1,681	1,313	385	193	2,232	5,804
Operating income (loss)	$ 1,215	$ 1,141	$ 603	$ 417	$ (2,616)	$ 760

Quarter ended December 31, 2008	**North America**	**Europe**	**Other International**	**Other Domestic**	**Corporate**	**Consolidated**
Sales	$ 6,525	$ 5,149	$ 1,275	$ 586	$	$ 13,535
Cost of sales	3,167	2,099	593	11	511	6,381
Gross margin	3,358	3,050	682	575	(511)	7,154
Operating expenses:						
Sales and marketing	1,936	1,003	202	74	677	3,892
Research and development				78	697	775
General and administrative	62	201	87		1,405	1,755
Total expense	1,998	1,204	289	152	2,779	6,422
Operating income (loss)	$ 1,360	$ 1,846	$ 393	$ 423	$ (3,290)	$ 732

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FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, in thousands)

Nine Months ended December 31, 2009	North America	Europe	Other International	Other Domestic	Corporate	Consolidated
Sales	$ 17,327	$ 11,255	$ 4,594	$ 1,920	$	$ 35,096
Cost of sales	9,257	4,650	2,308	77	885	17,177
Gross margin	8,070	6,605	2,286	1,843	(885)	17,919
Operating expenses:						
Sales and marketing	4,709	2,608	682	129	1,811	9,939
Research and development				298	1,155	1,453
General and administrative	98	742	269		3,362	4,471
Acquisition related expenses					893	893
Total expense	4,807	3,350	951	427	7,221	16,756
Operating income (loss)	$ 3,263	$ 3,255	$ 1,335	$ 1,416	$ (8,106)	$ 1,163

Nine Months ended December 31, 2008	North America	Europe	Other International	Other Domestic	Corporate	Consolidated
Sales	$ 19,925	$ 13,032	$ 4,034	$ 971	$	$ 37,962
Cost of sales	9,723	5,568	1,954	49	1,676	18,970
Gross margin	10,202	7,464	2,080	922	(1,676)	18,992
Operating expenses:						
Sales and marketing	5,446	2,876	691	261	2,078	11,352
Research and development				261	2,259	2,520
General and administrative	193	721	288		3,814	5,016
Severance	154				194	348
Total expense	5,793	3,597	979	522	8,345	19,236
Operating income (loss)	$ 4,409	$ 3,867	$ 1,101	$ 400	$ (10,021)	$ (244)

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FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, in thousands)

For the quarter ended December 31, 2009, one customer accounted for 11% of the Company s sales with no customer accounting for more than 10% of the Company s sales in the prior year period.

For the nine month periods ended December 31, 2009 and December 31, 2008 no customer accounted for more than 10% of the Company s sales.

For the quarter ended December 31, 2009, three suppliers each accounted for more than 10% of the Company s purchases of inventory. The three suppliers individually accounted for 38%, 19% and 16% of inventory purchases. For the nine months ended December 31, 2009, three suppliers each accounted for more than 10% of the Company s purchases of inventory. The three suppliers individually accounted for 34%, 29%, and 16% of inventory purchases.

For the quarter ended December 31, 2008, four suppliers each accounted for more than 10% of the Company s purchases of inventory. The four suppliers individually accounted for 36%, 22%, 13% and 11% of inventory purchases. For the nine months ended December 31, 2008, three suppliers each accounted for more than 10% of the Company s purchases of inventory. The three suppliers individually accounted for 37%, 26%, and 10% of inventory purchases.

ACQUISITION PROPOSAL

On June 1, 2009 the Company announced that it has received a copy of a Schedule 13D filed with the Securities and Exchange Commission relating to a non-binding proposal by Saunders Acquisition Corporation (Saunders) to acquire all of the Company s outstanding shares of common stock not owned by Saunders for $2.35 per share in cash. Saunders is owned by current senior management of the Company who, together with certain directors and other shareholders of the Company, have contributed their Company shares to Saunders.

The Company s Board of Directors appointed a Special Committee (the Special Committee) comprised of independent members of the Company s board of directors to consider the Saunders proposal and other proposals.

On September 30, 2009, the Company reported that the Special Committee had recommended, and its Board of Directors had approved, the execution by the Company of an Agreement and Plan of Merger with Saunders. Pursuant to the Agreement and Plan of Merger, shareholders of the Company, other than Saunders, will receive cash consideration of $2.50 per share. The transaction is subject to approval by a majority of the Company s shareholders entitled to vote thereon. According to filings with the Securities and Exchange Commission made by Saunders, Saunders owns approximately 32.69% of the total outstanding votes of the Company s common stock entitled to vote on the transaction. The Company has filed a Merger Proxy Statement with the Securities and Exchange Commission and scheduled a shareholders meeting to be held on February 24, 2010. The Agreement and Plan of Merger is subject to normal closing and termination provisions for agreements of its kind. Following consummation of the merger, it is expected that the Company will delist its shares from the NYSE Amex and deregister with the Securities and Exchange Commission.

ADOBE SYSTEMS INCORPORATED AGREEMENT

On January 8, 2010 the Company announced that it has entered into certain agreements (the Agreements) with Adobe Systems Incorporated (Adobe) pursuant to which, among other things, Adobe exercised in part its option to extend the term of its long-standing license for the Company s Proximity Division s spelling error detection and correction, hyphenation and thesaurus software for an

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additional year through September 30, 2013, and on January 8, 2010, Adobe paid to the Company approximately $2,267, an amount equal to the discounted present value of payments due from Adobe in October 2010 and October 2011 under the license. In addition to Adobe s exercise of its renewal option, Adobe has also contracted with the Company under the Agreements to develop certain spelling error detection and correction programs for the Portuguese language in compliance with certain recent Brazilian reforms. The Company expects to recognize $6,300 of revenue over the extended term of the license. The license also provides Adobe with an option to extend the license for an additional year which if exercised would result in the recognition of an additional $1,909 over the one year extension period.

LEGAL PROCEEDINGS

The Company is subject to litigation from time to time arising in the ordinary course of its business. The Company does not believe that any such litigation is likely, individually or in the aggregate, to have a material adverse effect on the financial condition of the Company.

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FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED

AND SUBSIDIARIES

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(unaudited, in thousands)

On June 8, 2009 a purported class action suit was filed by Capgrowth Group in the Superior Court of New Jersey naming as defendants the Company and its directors. The Complaint, filed just days after public disclosure of the Saunders Group s initial offer to purchase all the outstanding shares of the Company, alleges a breach by the defendant directors of their fiduciary duties of good faith, loyalty, fair dealing and due care to the plaintiff. On September 23, 2009, the defendants filed a Motion to Dismiss the lawsuit, stating, in substance, that the purported class action was premature and not ripe for adjudication, that pursuant to Pennsylvania law fiduciary duties are owed by directors to the Company and not directly to shareholders, and that individual shareholders such as Capgrowth Group are owed no duty in their individual capacity, and therefore cannot sue in their individual capacity. On October 9, 2009, plaintiff filed a First Amended Complaint which added a derivative count to its lawsuit. On the same date it also forwarded a demand to the board of directors of the Company to take appropriate legal action against the individual members of the Board. The defendants have withdrawn their Motion to Dismiss the initial Complaint and have filed a Motion to Dismiss the First Amended Complaint, advancing the arguments they made in the initial Motion to Dismiss and further stating, in substance, that the plaintiff has not made proper and sufficient demand upon the Company under Pennsylvania law to entitle the plaintiff to maintain a derivative action. The parties to the lawsuit have recently reached an agreement on material terms of a settlement, subject however, to entering into a final settlement agreement and to court approval. Pursuant to the terms of the agreement, the merger agreement between the Company and Saunders has been amended to reduce the fee payable by the Company to Saunders from $650,000 to $325,000 in the event of the termination of the agreement in certain circumstances, and defendants agreed not to dispute the contention of plaintiff that the pendency of its lawsuit was a cause of certain disclosures made in the merger proxy statement.

RECENT ACCOUNTING PRONOUNCEMENTS

In October 2009, the FASB issued Accounting Standards Updates (ASU) No. 2009-13, (Multiple-Deliverable Revenue Arrangements) and ASU No. 2009-14 (Certain Revenue Arrangements That Include Software Elements). The new guidance is effective July 1, 2009 and the adoption did not have a material impact on our consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06, (Improving Disclosure about Fair Value Measurements), under Topic 820, (Fair Value Measurements and Disclosures), to improve and provide new disclosures for recurring and nonrecurring fair value measurements. This update also clarifies existing disclosures of the level of disaggregation for the classes of assets and liabilities and the disclosure about inputs and valuation techniques. ASU No. 2010-06 new disclosures and clarification of existing disclosure is effective for interim and annual reporting periods beginning after December 15, 2009. The adoption of ASU No. 2010-06 new disclosures and clarification of existing disclosure did not have a material impact on our consolidated financial statements.

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

This Quarterly Report on Form 10-Q may contain statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Those statements include statements regarding the intent and belief or current expectations of Franklin and its management team. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements. Such risks and uncertainties include, among other things, the effects of the current economic conditions both in the United States and Europe, the timely availability and acceptance of new electronic books and other electronic products, changes in technology, the successful integration of acquisitions, the impact of competitive electronic products, the dependence on a small number of manufacturers for purchases of inventory, the management of inventories, dependence on key licenses, titles and products, dependence on sales to a small group of customers, dependence on third party component suppliers, including those that provide Franklin-specific parts, credit risk and other risks and uncertainties that may be detailed herein, and from time-to-time, in Franklin s reports filed with the Securities and Exchange Commission. Franklin undertakes no obligation to publicly update any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

RESULTS OF OPERATIONS

Overview

For the quarter ended December 31, 2009, net income decreased by $26 to income of $707 from $733 in the same period last year. Sales declined marginally by $196 or 1.4% from $13,535 to $13,339. Despite the decline, sales in most sectors of our North American business operations increased over last year s quarter as a result of a better than expected holiday season. Sales in our Other International business operation increased considerably during the quarter primarily from strong contributions from the Company s International Distributor and OEM sales divisions, as well as from its Australia and Mexico operations. These increases were offset by declines in our European business operations. Gross margin dollars decreased by $590 primarily due to increased promotional spending, lower pricing on older models to facilitate the transitioning into newer products in certain markets and increased inventory valuation provisions related to one product specific to our German operation. Operating expense decreased by $618 to $5,804 in the current period from $6,422 in the prior year period due to cost savings initiatives including a reduction in workforce in March 2009 partially offset by a one time legal expense of $218 primarily for proxy statement preparation relating to an acquisition proposal for the Company in the current year. Excluding these costs operating expenses would have decreased by $836 or 13%.

For the nine months ended December 31, 2009, net income increased by $1,633 to a gain of $970 from a loss of $663 in the same period last year. The increase is primarily due to the successful implementation of cost saving initiatives resulting in a $3,025 or 16% reduction in operating expenses before accounting for one time charges relating to acquisition proposals and evaluations and proxy statement preparation of $893 in the current year period and separation pay from our cost cutting initiatives of $348 in the same prior year period. Net income in the prior year period also included an investment loss of $370 resulting from the liquidation by its sponsor of a short-term fixed income fund.

Sales of monolingual products in our North American business operation have been trending downward over the past several years primarily due to indirect competition from the internet, computer and mobile applications providing consumers with alternative solutions (often free) for their spell correction and reference needs. The downward trend has been partially offset by growth in our bilingual products in the North American market. In addition, the turmoil in the financial markets during the last fifteen months has had a negative impact on consumer spending at retail which in turn contributed to our shortfall in sales for

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the nine months ended December 31, 2009. Despite these pressures, for the nine months ended December 31, 2009 we have benefited from our efforts to become more cost effective by reducing operating expenses by 13% compared with the prior year. The current year period operating expenses included $893 of primarily legal and investment banking costs related to acquisition proposals for the Company. The prior year period reflects a charge of $348 to cover the separation expenses associated with the May 2008 workforce reductions. Excluding these one time charges, operating expenses decreased by 16% compared with the prior year period.

Three months ended December 31, 2009 compared with three months ended December 31, 2008:

Net Sales

Sales of $13,339 for the quarter ended December 31, 2009 decreased by $196 from sales of $13,535 for the same quarter last year. Despite the decline, sales in most sectors of our North American business operation increased over last year s quarter as a result of a better than expected holiday season. Sales in our Other International operations increased considerably during the quarter primarily due to sales to two customers from our International Distributor and OEM divisions that did not purchase in the prior year period. Sales from our Australian and Mexican operations also recorded increases over the prior year quarter. These increases were offset by declines in our European operations. Foreign currency exchange had a favorable impact on sales of $705 in the quarter compared to the prior year, primarily due to the strength of the US dollar against the euro.

Gross Margin

Gross margin dollars decreased by $590 to $6,564 in the current quarter from $7,154 in the prior year period. Gross margin percentage decreased by four percentage points from 53% to 49%. The gross margin percentage decrease was primarily due to higher promotional spending, lower pricing on older models to facilitate the transitioning into newer products in certain markets and increased inventory valuation provisions related to one product specific to our German operations, partially offset by the favorable impact of currency exchange due to the strength of the U.S. dollar against the euro.

Operating Expenses

Total operating expenses decreased by $618 to $5,804 in the current quarter from $6,422 in the same period last year. This decrease is primarily due to cost cutting initiatives implemented in fiscal 2009 including a 22% reduction in the global workforce in March 2009, partially offset by one time expenses of $218 of legal costs primarily related to proxy statement preparation in connection with an acquisition proposal for the Company. Sales and marketing expenses decreased by $274 to $3,618 (27% of sales) from $3,892 (29% of sales) primarily due to decreased shows and exhibits of $292, lower personnel costs of $138, and lower freight costs of $40. These decreases were partially offset by increased advertising costs and consulting expenses of $135 and $48, respectively. Research and development expenses decreased by $303 to $472 (4% of sales) from $775 (6% of sales) in the prior year primarily due to decreased personnel costs of $200, and lower consulting and outside engineering expenses of $91. General and administrative expenses decreased by $259 to $1,496 (11% of sales) from $1,755 (13% of sales) in the prior year primarily due to decreased personnel costs, legal expenses, doubtful accounts, and depreciation of $189, $123, $72 and $66, respectively, along with an increase in an MIS allocation of $96. These decreases were partially offset by a reduction in inventory overhead allocation of $291.

Interest Expense, net

For the quarter ended December 31, 2009, there was net interest expense of $16 compared with interest income of $7 in the prior year period.

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Other, net

Other, net was a loss of $1 for the quarter ended December 31, 2009 compared with a loss of $16 in the same period last year. We recorded a loss of $3 on the repatriation of funds from our foreign subsidiaries in the quarter ended December 31, 2009, compared with a gain of $84 in the same period last year.

Net Income

For the quarter ended December 31, 2009, net income decreased by $26 to a gain of $707 from a gain of $733 in the same period last year. The decrease in gross margin of $590 has been offset by decreased operating costs of $618 following workforce reductions in March 2009. The current quarter net income included one time costs of $218 primarily related to legal services for proxy preparation in connection with an acquisition proposal for the Company. Excluding these costs, net income would have increased by $192 for the three months ended December 31, 2009 compared to the same period in the prior year.

We have operations in a number of foreign countries and record sales and incur expenses in various foreign currencies. As the values of these currencies fluctuate from year to year against the US dollar, our revenues, operating expenses and results of operations are impacted. For the quarter ended December 31, 2009, approximately 42% of our sales were denominated in currencies other than the US dollar. For the quarter ended December 31, 2009, our sales increased by approximately $705 from the year over year change in exchange rates for the various currencies (primarily the euro) in which we operate, while our operating expenses increased by approximately $223 due to the fluctuations in exchange rates. The net effect of the year over year fluctuations in exchange rates on our results of operations for the quarter ended December 31, 2009 was an increase in net income of approximately $482.

Nine months ended December 31, 2009 compared with nine months ended December 31, 2008:

Net Sales

Sales of $35,096 for the nine months ended December 31, 2009 decreased by $2,866 from sales of $37,962 for the same period in the prior year primarily due to lower sales in the retail markets from all our business operations, with the exception of the International Distributor and OEM divisions, as a result of the worldwide economic downturn and its impact on consumer spending. The International Distributor and OEM divisions made significant sales to two customers that did not purchase in the prior year period. Sales in our North American business operations, our largest retail market, declined by $2,598 or 13%. Sales in our European business operations declined by $1,777 or 14% due to lower sales through the retail markets, lower pricing on older models to facilitate the transitioning into newer products and the negative impact of a weaker euro to the US dollar compared to the prior year period.

Gross Margin

Gross margin dollars decreased by $1,073 to $17,919 in the current nine month period from $18,992 in the prior year period. Gross margin percentage increased by one percentage point from 50% to 51% primarily due to the renewal of a technology license agreement in the Proximity division with nine months of sales recorded in the current year compared to three months in the prior year period. The sales decrease accounted for $1,463 of the lower gross margin dollars partially offset by a $390 gain from the increase in gross margin percentage on sales. Foreign currency exchange had a negative impact of $136 on gross margin dollars primarily due to the strength of the U.S. dollar against the euro.

Operating Expenses

Total operating expenses decreased by $2,480 to $16,756 in the nine months ended December 31, 2009 from $19,236 in the same period last year. This decrease is primarily due to cost cutting initiatives

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implemented in fiscal 2009 including a reduction in workforce in May 2008 and March 2009 and a one time charge of $348 in the prior year to cover associated separation expenses in May 2008, partially offset by one time expenses of $893 of primarily legal and investment banking costs related to acquisition proposals for the Company and proxy statement preparation. Sales and marketing expenses decreased by $1,413 to $9,939 (28% of sales) from $11,352 (30% of sales) primarily due to decreased personnel costs of $776 following the workforce reductions. Freight and commissions decreased by $150 and $133 respectively, as a result of lower sales. MIS allocation also decreased by $145. Trade show expense decreased by $580 primarily due to the Company not participating in the Consumer Electronic Show, partially offset by increased advertising expenses of $366 due to promotional expense related to the SpellEvent in cooperation with TESOL held in August 2009 and increased marketing promotional spending. Research and development expenses decreased by $1,067 to $1,453 (4% of sales) from $2,520 (7% of sales) last year primarily due to reduced personnel costs of $700, and consulting costs of $352. Other decreases include amortization, allocated MIS and travel expenses of $88, $65, and $58, respectively. These reductions were partially offset by decreased capitalization of software costs of $207. General and administrative expenses decreased by $545 to $4,471 (13% of sales) from $5,016 (13% of sales) last year primarily due to reduced personnel costs of $629 following workforce reductions. Other decreases include legal, depreciation, allocation of MIS expense and consulting of $303, $202, $162 and $106 respectively. These reductions were partially offset by a decrease in inventory overhead allocation of $1,055.

Interest Income, net

For the nine months ended December 31, 2009 we had net interest expense of $23 compared with interest income of $27 in the same period last year, primarily due to a reduced return on investments.

Loss on Investment

The prior year expense was the result of an investment loss of $370 resulting from the liquidation by its sponsor of a short-term fixed income fund.

Other, net

Other, net was a loss of $60 for the nine months ended December 31, 2009 compared with a loss of $13 in the same period last year. We recorded a loss of $65 on the repatriation of funds from our foreign subsidiaries in the nine months ended December 31, 2009, compared with a loss of $11 in the same period last year.

Net Income

For the nine months ended December 31, 2009, net income increased by $1,633 to net income of $970 from a loss of $663 in the same period last year. The increase is primarily due to decreased operating costs of $2,480 following workforce reductions in May 2008 and March 2009 and the renewal of a technology license agreement in our Proximity division.

Net income in the current and prior years included one time charges. The current year net income included costs of $893 primarily related to legal and investment banking services resulting from the review of acquisition proposals for the Company and proxy statement preparation. The prior year net income includes a charge of $348 to cover the separation expenses associated with the May 2008 workforce reductions. Excluding these one time charges, net income would have increased by $2,178 to $1,863 in the current year compared to a loss of $315 in the prior year.

We have operations in a number of foreign countries and record sales and incur expenses in various foreign currencies. As the values of these currencies fluctuate from year to year against the US dollar, our revenues, operating expenses and results of operations are impacted. For the nine months ended December 31, 2009, approximately 37% of our sales were denominated in currencies other than the US dollar. For the nine months ended December 31, 2009, our sales decreased by approximately $136 from

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the year over year change in exchange rates for the various currencies (primarily the euro) in which we operate, while our operating expense benefited by approximately $71 due to the fluctuations in exchange rates. The net effect of the year over year fluctuations in exchange rates on our results of operations for the nine months ended December 31, 2009 was a decrease in income of approximately $66.

We enter into forward foreign exchange contracts from time to time to offset the impact of changes in the value of the euro on our revenue, operating expense and net income and to protect the cash flow from our existing assets valued in foreign currency. Although economic gains or losses on these contracts are generally offset by the gains or losses on underlying transactions, we seek to minimize our foreign currency exposure on a macro basis rather than at the transactional level. We only enter into contracts with major financial institutions that have an A (or equivalent) credit rating. All outstanding foreign exchange contracts are marked-to-market at the end of each accounting period with unrealized gains and losses included in results of operations.

As of December 31, 2009 we had no outstanding foreign exchange contracts.

Changes in Financial Condition

Accounts receivable increased by $2,932 to $7,289 at December 31, 2009 from $4,357 at March 31, 2009 primarily because of a seasonal increase in sales, for holiday promotions, of $5,276 during the December 2009 quarter compared to the March 2009 quarter. Inventory increased by $1,226 to $8,821 at December 31, 2009 from $7,595 at March 31, 2009. Accounts payable and accrued expenses increased by $84.

Liquidity and Capital Resources

We had cash and cash equivalents of $10,344 at December 31, 2009 compared with cash and cash equivalents of $12,013 as of March 31, 2009. The decrease was due primarily to seasonal cash requirements to build inventory for the back to school and holiday seasons.

On March 31, 2009, we entered into an amendment (the Amendment) to our Revolving Credit and Security Agreement (the Credit Agreement) with PNC Bank, National Association (PNC) dated December 7, 2004, as amended.

The Amendment modifies the Credit Agreement with PNC by providing for a $8,500 revolving credit facility with sublimits of $1,500 for Letters of Credit, $500 for foreign currency borrowings and, subject to certain conditions, $5,000 for acquisitions by the Company. The Amendment also modifies the Base Rate (as defined in the Credit Agreement) upon which the Revolving Interest Rate may be determined to be the greater of the Prime Rate, the sum of the Federal Funds Open Rate plus 50 basis points or the Daily LIBOR Rate plus 100 basis points and requires that any Advance made to the Company under the Agreement be fully secured by cash, money market funds and certificates of deposit held by or deposited with PNC. The minimum Fixed Charge Coverage Ratio was amended for the quarter ended March 31, 2009 to no less than .60x to 1.0. However it reverted back to 1.25x to 1.0 for the fiscal quarter ending June 30, 2009 and each quarter thereafter.

The Credit Agreement contains certain financial covenants and restrictions on indebtedness, business combinations and other related items. The Fixed Charge Coverage Ratio was amended for the March 31, 2009 quarter end as indicated above to ease the covenant requirement. However, at September 30, 2009 and for the December 31, 2009 quarter end, the Company was in breach of such covenant. On December 2, 2009, PNC granted a waiver of the September 30, 2009 covenant breach specified above. The Company is currently in discussions with PNC to grant a waiver for the quarter ended December 31, 2009. As of December 31, 2009, we had no borrowings under the Credit Agreement.

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We rely primarily on our operating cash flow to support our operations. Over the last three fiscal years we generated cash flow from operations of $7,728. This operating cash flow is supplemented by our Credit Agreement to meet seasonal financing needs. We believe our cash flow from operations, available borrowing under our Credit Agreement (assuming a default waiver described above is obtained) and existing cash and short-term investment balances will be adequate to satisfy our cash needs for the next twelve months. The amount of credit available under the Credit Agreement at any time is based upon a formula applied to our accounts receivable and inventory. As of December 31, 2009, we had credit available of $8,500 (assuming a default waiver described above is obtained). Our credit availability and borrowings under the credit agreement fluctuate during the year because of the seasonal nature of our business. During the twelve months ended December 31, 2009, the maximum availability under our Credit Agreement approximated $8,500. However, we did not utilize the Credit Agreement during the twelve months ended December 31, 2009. We do not have any significant capital leases and anticipate that depreciation and amortization for fiscal 2011 will exceed planned capital expenditures.

Seasonality

The back to school season (August to mid-September) and holiday selling season (October, November and December) are the strongest selling periods at retail for our products.

Future Income Tax Benefits

We have income tax benefits of $18,527 which can be utilized against future earnings and have provided an income tax valuation allowance of $15,527 against these tax assets. The remaining $3,000 balance is based upon our estimate of taxes that would be due and offset against our net operating loss carry forward, based upon our estimate of future earnings.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Management s Discussion and Analysis of Financial Condition and Results of Operations is based upon our consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. On an ongoing basis, we evaluate these estimates and judgments based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We annually review our financial reporting and disclosure practices and accounting policies to ensure that our financial reporting and disclosures provide accurate and transparent information relative to the current economic and business environment. There have been no changes in critical accounting policies and estimates from those enumerated in our Annual Report on Form 10-K for the year ended March 31, 2009.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable

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ITEM 4T. CONTROLS AND PROCEDURES

As of December 31, 2009 (the end of the period covered by this report), our management carried out an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

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

No change occurred in our internal controls concerning financial reporting during the quarter ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to litigation from time to time arising in the ordinary course of its business. We do not believe that any such litigation is likely, individually or in the aggregate, to have a material adverse effect on our financial condition.

On June 8, 2009 a purported class action suit was filed by Capgrowth Group in the Superior Court of New Jersey naming as defendants the Company and its directors. The Complaint, filed just days after public disclosure of the Saunders Group s initial offer to purchase all the outstanding shares of the Company, alleges a breach by the defendant directors of their fiduciary duties of good faith, loyalty, fair dealing and due care to the plaintiff. On September 23, 2009, the defendants filed a Motion to Dismiss the lawsuit, stating, in substance, that the purported class action was premature and not ripe for adjudication, that pursuant to Pennsylvania law fiduciary duties are owed by directors to the Company and not directly to shareholders, and that individual shareholders such as Capgrowth Group are owed no duty in their individual capacity, and therefore cannot sue in their individual capacity. On October 9, 2009, plaintiff filed a First Amended Complaint which added a derivative count to its lawsuit. On the same date it also forwarded a demand to the board of directors of the Company to take appropriate legal action against the individual members of the Board. The defendants have withdrawn their Motion to Dismiss the initial Complaint and have filed a Motion to Dismiss the First Amended Complaint, advancing the arguments they made in the initial Motion to Dismiss and further stating, in substance, that the plaintiff has not made proper and sufficient demand upon the Company under Pennsylvania law to entitle the plaintiff to maintain a derivative action The parties to the lawsuit have recently reached an agreement on material terms of a settlement, subject however, to entering into a final settlement agreement and to court approval. Pursuant to the terms of the agreement, the merger agreement between the Company and Saunders has been amended to reduce the fee payable by the Company to Saunders from $650,000 to $325,000 in the event of the termination of the agreement in certain circumstances, and defendants agreed not to dispute the contention of plaintiff that the pendency of its lawsuit was a cause of certain disclosures made in the merger proxy statement.

ITEM 1A. RISK FACTORS

As of the date of this filing, there have been no material changes from the risk factors enumerated in our Annual Report on Form 10-K for the year ended March 31, 2009.

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ITEM 6. EXHIBITS
(a) Exhibits

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

* Filed herewith
** Furnished herewith

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SIGNATURES

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

	FRANKLIN ELECTRONIC PUBLISHERS, INCORPORATED
Date: February 12, 2010	/s/ Barry J. Lipsky Barry J. Lipsky President and Chief Executive Officer (Duly Authorized Officer)
Date: February 12, 2010	/s/ Frank A. Musto Frank A. Musto Vice President, Chief Financial Officer, and Treasurer (Principal Financial and Accounting Officer)