

Franklin Electronic Publishers, Inc. History

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Telephone: (609) 386-2500**Fax:** (609) 239-5950**Website:** www.franklin.com**Public Company****Incorporated:** 1983**Employees:** 358**Sales:** \$88.7 million (1997)**Stock Exchanges:** New York**SICs:** 2741 Miscellaneous Publishing; 3571 Electronic

Computers; 3579 Office Machines, Not Elsewhere Classified;

7372 Prepackaged Software

Company Perspectives:

Franklin Electronic Publishers, Inc. created the handheld electronic book category in 1986 with the introduction of the Spelling Ace electronic spelling corrector. Electronic books instantly retrieve information for viewing on a liquid crystal display. Users can access this data anywhere--at home, at the office, or while traveling. The Company offers an extensive electronic library including dictionaries and bilingual dictionaries; Bibles; medical reference works; encyclopedias; and entertainment, educational and tutorial publications. Franklin leads the field in areas vital to handheld electronic publishing: publisher relations; manufacturing; hardware and software technology; and market position in North America, Europe, The Middle East and Africa.

Company History:

Franklin Electronic Publishers, Inc. is the worldwide market leader in handheld electronic books. Using microcomputer technology, electronic books retrieve information from a database for display on a liquid crystal display. Franklin created the first handheld electronic book in 1986 when it introduced the Spelling Ace, an electronic spelling corrector that allowed users to type in a word phonetically, then read the correct spelling. Licensing content from Merriam-Webster, Inc. and other publishers, Franklin succeeded in publishing an extensive electronic library of dictionaries, thesauri, medical reference works, encyclopedias, and a variety of entertainment, educational, and tutorial electronic publications. In October 1996 Franklin entered the personal productivity market by acquiring Rolodex Electronics and becoming the exclusive producer of Rolodex Electronics personal information management (PIM) and telephone products. By 1998 Franklin had sold more than 15 million electronic books through some 45,000 worldwide retail outlets and through catalogs. It had published more than 200 titles.

Founding as a Computer Manufacturer

Founded as Franklin Computer Corporation in 1981, the company made general purpose personal computers. Its first products were Apple clones, but it later produced IBM-compatible machines as well. The company was founded by three Philadelphia-area computer professionals: Joel Shusterman, who had started one of the largest Apple dealerships in the Philadelphia area, and Russell Bower and R. Barry Borden, who were experienced in computer manufacturing and engineering.

When Franklin released its first line of Apple-compatible computers, Apple sued Franklin for patent and copyright infringement on its hardware and software. Franklin eventually agreed to pay Apple \$2.5 million. Further disputes with Apple persisted through 1985, when the issues between the two companies were finally resolved. Although Franklin experienced huge growth in the early 1980s and became one of the top ten personal computer makers, it posted big losses in the face of intense competition and a slumping market. When both Apple and IBM lowered their prices, Franklin lost its competitive advantage, which it had obtained by selling its computers through mass retail outlets. Sales peaked at \$71.4 million in fiscal 1984 (ending March 31), but the company posted a \$10.3 million loss that year.

New CEO and New Directions in the Mid-1980s

Morton David joined the company in May 1984 as chairman of the board and CEO, replacing Borden, who had recently resigned. In 1985 he also became president, replacing Shusterman, who had left Franklin to start a software company but had returned as temporary president. Prior to joining Franklin, David was chairman and CEO of Mura Corporation, a manufacturer of portable audio products. David was a Harvard Law School graduate and a Phi Beta Kappa at the City College of New York. Under his leadership the business moved into electronic publishing.

In June 1984 Franklin filed for protection from its creditors under Chapter 11 of the U.S. Bankruptcy Act. David's assignment, clearly, was to turn the company around. It emerged from Chapter 11 in early 1985 following the settlement of Apple's copyright infringement suit. As part of the settlement, Apple agreed not to challenge Franklin's programs on the basis of copyright.

It was in 1985 that the company changed direction, leading to the introduction in late 1986 of its first electronic book, the Spelling Ace. Instead of trying to get a computer into every home, Franklin decided to try to get five computers in every home. The company decided to develop a new product, one that was small and inexpensive and had a limited set of functions.

In May 1986 Franklin acquired Proximity Technology, which was the nation's largest supplier of linguistic software. Proximity licensed more than one million spell-check and related products to typewriter and computer producers annually. Its CEO, Peter Yianilos, became Franklin's chief scientist and remained head of the Proximity subsidiary. While with Proximity, he had developed a prototype of a pocket-sized spell-check product with Jim Simons, who was now Franklin's largest stockholder with a 45.7 percent interest in the company. When Yianilos approached David about the product, David gave him an immediate go-ahead. The result was Spelling Ace, the world's first electronic speller.

1986: First Electronic Book Released

Spelling Ace debuted at around \$90 retail. The price was later reduced to \$70, attracting the interest of retailers such as K Mart and Sears. The response was sensational, and Franklin sold more than 800,000 Spelling Aces in the first two years. The new product triggered Franklin's first profitable quarter since 1984, and for fiscal 1998 Franklin turned a profit of \$2.8 million. The Spelling Ace and other new electronic books accounted for about half of the company's sales. The rest of its revenues still came from selling and supporting Apple- and IBM-compatible computers.

Soon after, Franklin introduced an electronic dictionary and thesaurus, followed by a speller for children. Word Wiz, designed for children who spell poorly, combined Spelling Ace with the capability to play word games. Spellmaster was the adult version of Word Wiz. Other new products included Word Master, an electronic thesaurus with 470,000

synonyms for 35,000 words, and Language Master, which included a dictionary, thesaurus, and spell-checker.

Commenting on the company's change of direction, CEO David told the *Philadelphia Business Journal*, "We're really becoming a publishing company." One of the company's new strengths was its exclusive agreement with Merriam-Webster, Inc., which allowed it to use the dictionary-maker's words and definitions.

Expanding to International Markets in 1987

In 1987 Franklin developed and produced British English versions of its American English electronic books for the U.K. and Australian markets, beginning with a British version of Spelling Ace. Some of the first British English products were an electronic spelling book based on a list of 70,000 words licensed from HarperCollins and a children's dictionary incorporating a database from the *Oxford Children's Dictionary*. Monolingual books were subsequently developed for other international markets such as France, Germany, and Spain and South America.

For the 1987 Christmas season Franklin only had four products for sale. By the end of 1988 it had introduced ten new products, including new and more sophisticated versions of its thesauri and dictionaries. Franklin claimed 80 percent of the electronic book market. It faced growing competition from companies such as Smith Corona Inc., Seiko Instruments USA Inc., Selectronics Inc., and Texas Instruments Inc., but by 1991 Smith Corona had exited the electronic reference book business after its spell-checkers and thesauri failed to sell well. Following the success of Spelling Ace, the Minneapolis-based Selectronics introduced Wordfinder, which contained 100,000 words in its spelling bank and 220,000 synonyms.

During 1988 Franklin moved into larger headquarters, from its 27,000-square-foot offices in Pennsauken, New Jersey to a 40,000-square-foot facility in Mount Holly, New Jersey. Its products were manufactured in Asian factories, although the company was considering manufacturing some of its more expensive products at its Mount Holly facility. Sales in fiscal 1989 (ending March 31) were \$67.3 million, more than the total domestic sales of paper dictionaries, which were estimated to be in the range of \$55 to \$65 million. With prices ranging from \$49 to \$350 for its products, Franklin claimed that one or more of its products was carried in some 13,000 retail outlets ranging from K Mart and Sears to Bloomingdales and The Sharper Image.

In January 1989 Franklin introduced several new products targeted at the school market, including a spelling dictionary packaged with a Merriam-Webster Elementary School Dictionary. Students could type in what they thought a word sounded like and then see the correct spelling. Franklin marketed directly to schools through its Franklin Learning Division. By 1992 the company claimed its products were in use in 9,000 schools.

Name Change in 1990

Franklin changed its name to Franklin Electronic Publishers, Inc. in 1990. The company reported losses for fiscal 1990 and 1991, but with the quarter ending September 30, 1991, Franklin returned to profitability. It earned \$1.47 million on sales of \$17.73 million that quarter. During the next quarter, typically the company's strongest because of Christmas retail sales, it reported the second highest Christmas quarter earnings in its history: \$1.9 million on declining sales of \$16.74 million. The profitable quarters were a result of cost cutting and improved profit margins. The company was able to reduce the price of its new electronic dictionary to around \$100, compared with \$300 for its first electronic dictionary.

Profitability in Fiscal 1992

After two years of losses, Franklin was on solid footing with net income of \$3.1 million on sales of \$53.8 million for the fiscal year 1992 ending March 31. It was the first of several years of growing profitability, as the company was able to cut costs and expenses, introduce new products, and expand into international markets.

Research and development on new products and technologies would be an important part of Franklin's growth over the next several years. In November 1991 the company named Edgar T. "Ned" Irons as chief scientist. Irons had achieved national recognition for his invention of the Syntax Directed Compiler, a technique for parsing sentences according to a formal description of grammar. The former chairman and co-founder of the Computer Science Department at Yale University, Irons was hired to lead Franklin's research and development team. According to the *Burlington (N.J.) County Times*, "The company hopes to develop machines that can comprehend the nuances of a language, such as the difference between 'threw' and 'through.' Presently, computers can tell if the word is spelled correctly, but not if it's being used correctly."

In January 1992 Franklin unveiled its Language Master at the Las Vegas consumer electronics show. The company described it as "the world's first talking hand-held dictionary, spell checker, and grammar guide," according to the *Burlington (N.J.) County Times*. At the same show Franklin introduced Big League Baseball, an electronic baseball encyclopedia with data supplied by Total Baseball. Franklin's Big League Baseball contained key statistics for every player in the history of the National and American Leagues.

In 1992 Franklin began to market its products directly in selected international markets by establishing wholly owned, local subsidiaries. The first, Franklin Electronic Publishers (U.K.) Ltd., was established in the United Kingdom in mid-1992 to market and distribute British English versions of Franklin's books. Franklin hoped that its presence in England would help it forge closer ties with Oxford University Press, with whom it was developing new electronic titles. French and Canadian subsidiaries were established in 1994, and German and Australian subsidiaries were established in 1995.

Franklin's line of electronic books included more than 30 titles in 1992, prior to the introduction of the Digital Book System (DBS) in October. Each title was self-contained within a dedicated playing unit. With the introduction of the Digital Book System, however, users would have a single playing unit that would take interchangeable electronic book cartridges. This would result in lower costs to consumers purchasing multiple titles.

The first DBS retail package included two digital books and sold for approximately \$200. One was Merriam-Webster's Dictionary Plus dictionary and thesaurus, which contained more than 274,000 definitions and 496,000 synonyms. The second was Word Games, a package of ten challenging word games. Also available was the Video Companion, a guide to 10,000 movies available on videotape, and The Medical Letter Handbook of Adverse Drug Interactions.

The Digital Book System won several awards, including "Best of What's New" from *Popular Science*, the first Technical Achievement/Innovation award presented at the third annual LMP Awards, and the Innovations '93 Design & Engineering Honors presented at the 1993 Summer Consumer Electronics Show.

By this time Franklin claimed to have sold more than five million handheld electronic dictionaries, spelling correctors, puzzle solvers, Bibles, and sports encyclopedias.

Franklin established Medical Digital Book Systems and introduced the Digital Book System for the medical market in 1992. One of its first medical titles was called Med-Spell, which contained some 250,000 medical terms, drug names, and words of general usage. Franklin's Digital Book library grew to include several medical titles, including *Physicians Desk Reference (PDR)*, *Handbook of Adverse Drug Interactions*, *The Merck Manual*, *Harrison's Principles of Internal Medicine Companion Handbook*, and other titles.

By negotiating with key medical publishers to produce electronic versions of their products, Franklin was able to capture a large vertical market for its electronic books. In the course of just a few months Franklin sold more than 20,000 Digital Book Systems to doctors. In some cases, the medical publishers themselves would distribute both the print and electronic versions of their titles. For example, Medical Economics Data, the publisher of the *Physicians Desk Reference*, distributed both the printed and electronic book versions of that title.

Sales for fiscal 1993 increased to \$65.4 million, and net income more than doubled to \$7.1 million, due in large part to the popularity of the baseball encyclopedia and other new products. By mid-1993 the company offered approximately 15 electronic books for use with its Digital Book System, including *Parker's Wine Guide*, *The Concise Columbia Encyclopedia*, a baseball encyclopedia, several medical reference works, and dictionaries and thesauri.

In fall 1993 Franklin released DBS-2, the second generation of its Digital Book System. The DBS-2 could access 200 megabytes of data, substantially more than the DBS-1. It was also cheaper, retailing for approximately \$130. The new model had audio capabilities and serial connectivity.

Franklin also established a Custom Book Division to develop custom electronic books for commercial applications. The first such custom electronic book that Franklin produced was an electronic catalog for Allen-Bradley, a \$1.5 billion manufacturer of sensors and components, that could be used by the company's sales force. Although the Allen-Bradley deal was not "significant to Franklin's revenues," according to Executive Vice-President Michael Strange, it was expected to be the first of many such deals. Franklin boasted that it could convert a prototype of a company database or other intellectual property in a single day, and once the customized electronic book was refined, it could be sold to the company for less than \$100 per unit.

In other ventures Franklin partnered with SkyTel Corporation to produce an electronic paging system for use with Franklin's Digital Book System. SkyTel, a leading provider of nationwide messaging services, and Franklin would produce a matchbook-size electronic pager card to work with Franklin's Digital Book System. Users would then be able to receive wireless messaging services directly on their handheld Digital Book System unit. The product was aimed at mobile professionals who rely on portable electronic databases when traveling and working in the field.

Launching New Product Lines in the Mid-1990s

In 1995 Franklin launched its Bookman product line, which came with an installed database and included a slot for plugging in a second electronic book. Prices varied depending on the title. Previously, the DBS product was a player only, with two slots for electronic book cards. With the advent of the Bookman product line, the Digital Book System eventually was limited to medical titles. The company planned to phase out the DBS in March 1998 and replace it with a product that better served the medical marketplace.

Meanwhile, the company's international business was exploding. During fiscal 1995, international sales accounted for 28 percent of Franklin's \$83.2 million in sales, up from 14 percent in fiscal 1994. In November 1995 the company announced it would open a subsidiary in Mexico in 1996 as a way to enter the Latin American market, which it did. It also established a subsidiary in Colombia in 1996 and, in early 1997, Franklin Italy opened in Milan. In April 1997 Franklin further expanded into Europe by acquiring Advanced Data Management Group S.A., a Belgian-based distributor of electronic products that served the Benelux countries (Belgium, Netherlands, and Luxembourg).

In other ventures, Franklin licensed its Bookman technology to the electronic firm Brother International, which would begin including built-in Bookman slots in selected word processors in 1996. Until now, Bookman cartridges could only be accessed through Franklin's handheld Bookman hardware, which retailed for between \$50 and \$130. Now, Bookman cartridge owners could use the product in a word processor with a larger screen. Approximately 30 different Bookman cartridges were available at this time.

In 1996 Franklin completed construction of its new 90,000-square-foot corporate headquarters in Burlington, New Jersey.

Franklin's first personal information management (PIM) product, the Bookman Sidekick Palmtop Organizer, was introduced in 1996. In 1997 the company began selling this line of personal organizers under the Rolodex Electronics trademark, which it acquired from Insilco Corporation for approximately \$16 million in cash in October 1996.

Following the Rolodex Electronics acquisition, Franklin released its first entry into the telephone business, a high-quality Rolodex Electronics conference telephone, and planned to introduce a line of full-feature Caller ID products. Using the Rolodex Electronics brand name, Franklin planned to enter much larger markets than those served by its content-driven products. Franklin hoped to use the Rolodex Electronics brand name to achieve the same dominance in the PIM market as it had in the electronic book market.

In spite of weakness in the domestic consumer electronic market during fiscal 1996 and 1997, Franklin continued to introduce new content-rich products and expand into international markets. During fiscal 1997 it introduced Homework Wiz for kids, a low price-point dictionary for six- to seven-year-olds. During the 1996-97 school year the company introduced the Speak English! Language Tutor as part of its Bookman line. The product helps people learn how to speak English by recording the user's speech and playing it back and comparing it to Franklin's compressed speech. Several new Bookman products for nurses were also introduced, including *Nursing Diagnoses and Classifications* and Springhouse's *Nursing97 Drug Handbook*.

In February 1997 Franklin entered into an agreement with Liris to develop, publish, and distribute French titles in handheld electronic platforms and ROM cards. Liris is a publisher of dictionaries, thesauri, and encyclopedias under several well-known French trademarks, including Larousse, Le Robert, Nathan, Dalloz, Masson, and Bouquins.

In May 1997 Franklin formed a joint venture called Pacrim with Kinpo Electronic, a Taiwan-based manufacturer of electronic products, to develop a range of handheld electronic products for China, Taiwan, Hong Kong, and other international markets. The company quickly established a new wholly owned subsidiary in Singapore to service markets in southeast Asia.

Franklin was also interested in incorporating voice recognition technology into some of its products, and in May 1997 it acquired certain existing product lines and technology from Voice Powered Technology International, Inc. It planned to develop a line of voice-controlled electronic organizers as part of the Rolodex Electronics line.

In October 1997 Franklin began shipping the Rex PC Companion, which enabled users to download organizer data from their personal computers to the portable device. The credit card-size PC-Card was developed in partnership with Starfish Software and the Citizen Watch Company of Japan. Since the original files reside on the PC, users can "download and go" without worrying about losing organizer data. Two available models were priced at around \$130 and \$150.

In October 1997 CEO and President David announced he would be leaving the company in February 1998, after 14 years there. After steering Franklin out of bankruptcy in the 1980s, David redefined the company and changed it from a computer maker to an electronic publisher. Under his leadership, Franklin refined its electronic books, steadily lowering their prices to make them more affordable to a wide range of consumers. He built upon the success of Franklin's electronic books to expand the company's product lines into personal information management and related areas. At the time of his departure, he had set Franklin on a course to grow in several directions.

Principal Subsidiaries: Franklin France, Franklin Australia, Franklin Colombia, Franklin Mexico, Franklin Italy, Franklin Germany, Franklin Canada, Franklin Europe.

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