FRANKLIN WIRELESS CORP
Form 10-Q
May 15, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 10-Q**

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

**x**

**For the quarterly period ended March 31, 2015**

**OR**

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

**For the transition period from to .**

**Commission file number: 001-14891**

**FRANKLIN WIRELESS CORP.**

(Exact name of Registrant as specified in its charter)

| | |
|---|---|
| **Nevada** | **95-3733534** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| **6205 Lusk Blvd.** | **92121** |
| **San Diego, California** | (Zip code) |
| (Address of principal executive offices) | |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company x

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x

The Registrant has 10,533,869 shares of common stock outstanding as of May 15, 2015.

**FRANKLIN WIRELESS CORP.**

**INDEX TO CONSOLIDATED QUARTERLY REPORT ON FORM 10-Q**

**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2015**

**NOTE ON FORWARD LOOKING STATEMENTS**

You should keep in mind the following points as you read this Report on Form 10-Q:

The terms “we,” “us,” “our,” “Franklin,” “Franklin Wireless,” or the “Company” refer to Franklin Wireless Corp.

This Report on Form 10-Q contains statements which, to the extent they do not recite historical fact, constitute “forward looking” statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward looking statements are used under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operation,” and elsewhere in this Quarterly Report on Form 10-Q. You can identify these statements by the use of words like “may,” “will,” “could,” “should,” “project,” “believe,” “anticipate,” “expect,” “plan,” “estimate,” “forecast,” “potential,” “intend,” “continue,” and variations of t or comparable words. Forward looking statements do not guarantee future performance and involve risks and uncertainties. Actual results may differ substantially from the results that the forward looking statements suggest for various reasons, including those discussed under the caption “Risk Factors” in Item 1A of our Annual Report on Form 10-K for the year ended June 30, 2014. These forward looking statements are made only as of the date of this Report on Form 10-Q. We do not undertake to update or revise the forward looking statements, whether as a result of new information, future events or otherwise.

**PART I – FINANCIAL INFORMATION**

**ITEM 1. Financial Statements**

**FRANKLIN WIRELESS CORP.**

**CONSOLIDATED BALANCE SHEETS**

| | **March 31, 2015** (unaudited) | **June 30, 2014** |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $10,831,825 | $8,240,595 |
| Accounts receivable | 5,518,247 | 5,622,644 |
| Other receivables, net | 156,576 | 99,406 |
| Inventories, net | 2,107,830 | 1,967,390 |
| Loan to an employee | – | 7,128 |
| Prepaid expenses and other current assets | 84,845 | 191,219 |
| Prepaid income taxes | 909,588 | 1,056,588 |
| Deferred tax assets, current | 249,000 | 59,279 |
| Advance payments to vendors | 30,766 | 46,109 |
| Total current assets | 19,888,677 | 17,290,358 |
| Property and equipment, net | 352,494 | 498,465 |
| Intangible assets, net | 1,284,449 | 2,125,816 |
| Deferred tax assets, non-current | 1,977,603 | 1,981,325 |
| Goodwill | 273,285 | 273,285 |
| Other assets | 99,780 | 107,409 |
| TOTAL ASSETS | $23,876,288 | $22,276,658 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $6,944,670 | $5,534,168 |
| Advance payments from customers | 113,943 | 319,888 |
| Accrued liabilities | 255,112 | 317,298 |
| Marketing funds payable | – | 374,608 |
| Short-term borrowings | 148,295 | 148,295 |
| Total current liabilities | 7,462,020 | 6,694,257 |
| Total liabilities | 7,462,020 | 6,694,257 |

**Commitments and contingencies (Note 8)**

| | | |
|---|---|---|
| **Stockholders' equity:** | | |
| Parent Company stockholders' equity | | |
| Preferred stock, par value $0.001 per share, authorized 10,000,000 shares; No preferred stock issued and outstanding as of March 31, 2015 and June 30, 2014 | – | – |
| Common stock, par value $0.001 per share, authorized 50,000,000 shares; 10,533,869 shares issued and outstanding as of March 31, 2015 and June 30, 2014 | 13,806 | 13,806 |
| Additional paid-in capital | 7,298,004 | 7,245,283 |
| Retained earnings | 13,326,510 | 12,601,083 |
| Treasury stock, 3,342,286 shares as of March 31, 2015 and June 30, 2014 | (4,279,479 ) | (4,279,479 ) |
| Accumulated other comprehensive loss | (577,651 ) | (243,100 ) |
| Total Parent Company stockholders' equity | 15,781,190 | 15,337,593 |
| Non-controlling interests | 633,078 | 244,808 |
| Total stockholders' equity | 16,414,268 | 15,582,401 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $23,876,288 | $22,276,658 |

See accompanying notes to consolidated financial statements.

**FRANKLIN WIRELESS CORP.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

**(Unaudited)**

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net sales | $10,174,842 | $10,055,313 | $36,285,606 | $19,016,261 |
| Cost of goods sold | 8,293,528 | 9,065,571 | 29,600,967 | 15,821,181 |
| Gross profit | 1,881,314 | 989,742 | 6,684,639 | 3,195,080 |
| Operating expenses: | | | | |
| Selling, general and administrative | 1,145,194 | 1,065,315 | 3,777,978 | 3,443,413 |
| Research and development | 722,781 | 696,501 | 2,238,684 | 2,075,644 |
| Total operating expenses | 1,867,975 | 1,761,816 | 6,016,662 | 5,519,057 |
| Income (loss) from operations | 13,339 | (772,074) | 667,977 | (2,323,977) |
| Other income, net: | | | | |
| Interest income | 2,854 | 3,267 | 8,509 | 10,508 |
| Other income, net | 20,203 | 554,614 | 398,211 | 689,114 |
| Total other income, net | 23,057 | 557,881 | 406,720 | 699,622 |
| Income (loss) before provision (benefit) for income taxes | 36,396 | (214,193) | 1,074,697 | (1,624,355) |
| Income tax provision (benefit) | (249,000) | (88,000) | (39,000) | (548,000) |
| Net income (loss) | 285,396 | (126,193) | 1,113,697 | (1,076,355) |
| Non-controlling interests in net income of subsidiary at 48.2% | (267,597) | (4,987) | (388,270) | (21,505) |
| Net income (loss) attributable to Parent Company | $17,799 | $(131,180) | $725,427 | $(1,097,860) |
| Basic earnings (loss) per share attributable to Parent Company stockholders | $0.00 | $(0.01) | $0.07 | $(0.11) |
| Diluted earnings (loss) per share attributable to Parent Company stockholders | $0.00 | $(0.01) | $0.07 | $(0.11) |
| Weighted average common shares outstanding – basic | 10,533,869 | 10,381,785 | 10,533,869 | 10,376,787 |
| Weighted average common shares outstanding – diluted | 10,650,609 | 10,381,785 | 10,650,609 | 10,376,787 |
| Comprehensive income (loss) | | | | |
| Net income (loss) | $285,396 | $(126,193) | $1,113,697 | $(1,076,355) |
| Translation adjustments | (208,407) | (11,051) | (334,551) | (101,928) |
| Comprehensive income (loss) | 76,989 | (137,244) | 779,146 | (1,178,283) |
| Comprehensive income attributable to non-controlling interest | (267,597) | (4,987) | (388,270) | (21,505) |

| | | | | |
|---|---|---|---|---|
| Comprehensive income (loss) attributable to controlling interest | $(190,608 ) | $(142,231 ) | $390,876 | $(1,199,788 ) |

See accompanying notes to consolidated financial statements.

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**FRANKLIN WIRELESS CORP.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

| | Nine Months Ended March 31, 2015 | 2014 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | $1,113,697 | $(1,076,355) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation | 180,203 | 188,246 |
| Amortization of intangible assets | 970,576 | 952,215 |
| Deferred tax (benefit) | (185,999) | (548,000) |
| Share-based compensation | 52,721 | 195,797 |
| Gain on forgiven debt | (40,125) | – |
| Gain on debt extinguishment | (374,608) | (643,731) |
| Increase (decrease) in cash due to change in: | | |
| Accounts receivable | 47,227 | (1,230,619) |
| Inventories | (140,440) | (1,927,636) |
| Prepaid expenses and other current assets | 106,374 | (150,679) |
| Prepaid income taxes | 147,000 | (26,680) |
| Advance payments to vendors | 15,343 | (49,051) |
| Other assets | 7,629 | (8,140) |
| Accounts payable | 1,450,627 | 3,666,908 |
| Advance payments from customers | (205,945) | 224,949 |
| Accrued liabilities | (62,186) | (248,003) |
| Net cash provided by (used in) operating activities | 3,082,094 | (680,779) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (34,232) | (111,681) |
| Payments for capitalized development costs | (81,591) | (521,068) |
| Purchases of intangible assets | (47,618) | (28,519) |
| Receipt of loan repayments from an employee | 7,128 | – |
| Receipt of loan repayments from third party | – | 103,191 |
| Net cash used in investing activities | (156,313) | (558,077) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from short-term borrowings | – | 1,211 |
| Issuance of stock related to stock options exercised | – | 16,150 |
| Net cash provided by financing activities | – | 17,361 |
| Effect of foreign currency translation | (334,551) | (101,928) |

| | | |
|---|---|---|
| Net increase (decrease) in cash and cash equivalents | 2,591,230 | (1,323,423 ) |
| Cash and cash equivalents, beginning of period | 8,240,595 | 10,431,474 |
| Cash and cash equivalents, end of period | $10,831,825 | $9,108,051 |

| | | |
|---|---|---|
| **Supplemental disclosure of cash flow information:** | | |
| Cash paid during the periods for: | | |
| Interest | $5,043 | $8,741 |
| Income taxes | $– | $– |

See accompanying notes to unaudited consolidated financial statements

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**FRANKLIN WIRELESS CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

## NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Franklin Wireless Corp. ("the Company") have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and are presented in accordance with the requirements of Form 10-Q. In the opinion of management, the financial statements included herein contain all adjustments, including normal recurring adjustments, considered necessary to present fairly the financial position, the results of operations and comprehensive income (loss) and cash flows of the Company for the periods presented. These financial statements and notes hereto should be read in conjunction with the financial statements and notes thereto for the fiscal year ended June 30, 2014 included in the Company's Form 10-K filed on September 29, 2014. The operating results or cash flows for the interim periods presented herein are not necessarily indicative of the results to be expected for any other interim period or the full year.

## NOTE 2 - BUSINESS OVERVIEW

We are a leader in intelligent wireless solutions including mobile hotspots, routers and modems as well as innovative hardware and software products that support machine-to-machine (M2M) applications and the Internet of Things (IoT). Our M2M and IOT solutions include embedded modules, modems and gateways built to deliver reliable always-on connectivity supporting a broad spectrum of applications. These products are designed to solve wireless connectivity challenges in a variety of vertical markets including video surveillance, digital signage, home security, oil and gas exploration, kiosks, fleet management, smart grid, vehicle diagnostics, telematics and many more.

We have a majority ownership position in Franklin Technology Inc. (FTI), a research and development facility located in Seoul, South Korea. FTI primarily provides design and development services to us for our wireless products.

Our products are generally marketed and sold directly to wireless operators, and indirectly through strategic partners and distributors. Our global customer base extends primarily from the United States to countries in South America, the Caribbean, Europe, the Middle East and Africa ("EMEA") and Asia.

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and a subsidiary with a majority voting interest of 51.8% (48.2% is owned by non-controlling interests) as of March 31, 2015 and June 30, 2014. In the preparation of consolidated financial statements of the Company, intercompany transactions and balances are eliminated and net earnings are reduced by the portion of the net earnings of subsidiaries applicable to non-controlling interests.

**Non-controlling Interest in a Consolidated Subsidiary**

As of March 31, 2015, the non-controlling interest was $633,078, which represents a $388,270 increase from $244,808 as of June 30, 2014. The increase was due to the net income of subsidiary of $804,874 for the nine months ended March 31, 2015, of which 48.2% was attributable to the non-controlling interests.

**Segment Reporting**

Accounting Standards Codification ("ASC") 280, "Segment Reporting," requires public companies to report financial and descriptive information about their reportable operating segments. We identify our operating segments based on how management internally evaluates separate financial information, business activities and management responsibility. We have one reportable segment, consisting of the sale of wireless access products.

We generate revenues from four geographic areas, consisting of the United States, the Caribbean and South America, EMEA and Asia. The following enterprise-wide disclosure is prepared on a basis consistent with the preparation of the consolidated financial statements.

The following table contains certain financial information by geographic area:

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| Net sales: | 2015 | 2014 | 2015 | 2014 |
| United States | $6,999,431 | $5,007,627 | $26,725,077 | $10,089,868 |
| Caribbean and South America | – | 15,240 | 1,415,052 | 1,854,320 |
| Europe, the Middle East and Africa ("EMEA") | 3,154,126 | 1,295,931 | 4,517,524 | 2,056,068 |
| Asia | 21,285 | 3,736,515 | 3,627,953 | 5,016,005 |
| Totals | $10,174,842 | $10,055,313 | $36,285,606 | $19,016,261 |

| Long-lived assets, net (property and equipment and intangible assets): | March 31, 2015 | | June 30, 2014 | |
|---|---|---|---|---|
| United States | $ | 1,024,546 | $ | 1,786,910 |
| Asia | | 612,397 | | 837,371 |
| Totals | $ | 1,636,943 | $ | 2,624,281 |

**Estimates**

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates.

**Fair Value of Financial Instruments**

The carrying amounts of financial instruments such as cash equivalents, accounts receivable, accounts payable and debt approximate the related fair values due to the short-term maturities of these instruments. We invest our excess cash into financial instruments which are readily convertible into cash, such as money market funds and certificates of deposit.

**Allowance for Doubtful Accounts**

Based upon our review of our collection history as well as the current balances associated with all significant customers and associated invoices, we do not believe an allowance for doubtful accounts was necessary as of March 31, 2015 and June 30, 2014.

**Revenue Recognition**

We recognize revenue in accordance with ASC 605, "Revenue Recognition," when persuasive evidence of an arrangement exists, the price is fixed or determinable, collection is reasonably assured and delivery of products has occurred or services have been rendered. Accordingly, we recognize revenues from product sales upon shipment of the products to customers or when the products are received by the customers in accordance with shipping or delivery terms. We provide a warranty for one year from the shipment date, which is covered by our vendors pursuant to purchase agreements. Any net warranty related expenditures made by us have not historically been material. Under our sales return policy, customers may generally return products that are under warranty for repair or replacement.

**Cost of Goods Sold**

All costs associated with our contract manufacturers, as well as distribution, fulfillment and repair services are included in our cost of goods sold. Cost of goods sold also includes amortization expense associated with capitalized product development costs associated with complete technology.

**Capitalized Product Development Costs**

Accounting Standards Codification (“ASC”) Topic 350, “Intangibles – Goodwill and Other” includes software that is part of a product or process to be sold to a customer and shall be accounted for under Subtopic 985-20. Our products contain embedded software internally developed by our Korea-based subsidiary, Franklin Technology Inc. (“FTI”), which is an integral part of these products because it allows the various components of the products to communicate with each other and the products are clearly unable to function without this coding.

The costs of product development that are capitalized once technological feasibility is determined (noted as Technology in progress in the Intangible Assets table) include payroll, employee benefits, and other headcount-related expenses associated with product development. Related licenses and certification costs are also capitalized. We determine that technological feasibility for our products is reached after all high-risk development issues have been resolved. Once the products are available for general release to our customers, we cease capitalizing the product development costs and any additional costs, if any, are expensed. The capitalized product development costs are amortized on a product-by-product basis using the greater of straight-line amortization or the ratio of the current gross revenues to the current and anticipated future gross revenues. The amortization begins when the products are available for general release to our customers.

As of March 31, 2015 and June 30, 2014, capitalized product development costs in progress were $0 and $39,545, respectively, and these amounts are included in intangible assets in our consolidated balance sheets. During the three and nine months ended March 31, 2015, we incurred $0 and $81,591 in capitalized product development costs, and such amounts are primarily comprised of certifications and licenses. All expenses incurred before technological feasibility is reached are expensed and included in our consolidated statements of comprehensive income (loss).

**Research and Development Costs**

Costs associated with research and development are expensed as incurred. Research and development costs were $722,781 and $696,501 for the three months ended March 31, 2015 and 2014, respectively, and $2,238,684 and $2,075,644 for the nine months ended March 31, 2015 and 2014, respectively.

**Warranties**

We provide a warranty for one year which is covered by our vendors and manufacturers under purchase agreements between the Company and the vendors. In general, these products are shipped directly from our vendors to our customers. As a result, we believe we do not have any net warranty exposure and do not accrue any warranty expenses. Historically, the Company has not experienced any material net warranty expenditures.

**Shipping and Handling Costs**

Costs associated with product shipping and handling are expensed as incurred. Shipping and handling costs, which are included in selling, general and administrative expenses on the consolidated statements of comprehensive income (loss), were $201,249 and $129,862 for the three months ended March 31, 2015 and 2014, respectively, and $876,827 and $263,104 for the nine months ended March 31, 2015 and 2014, respectively.

**Cash and Cash Equivalents**

For purposes of the consolidated statements of cash flow, we consider all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

**Inventories**

Our inventories consist of finished goods and are stated at the lower of cost or market, cost being determined on a first-in, first-out basis. We assess the inventory carrying value and reduce it, if necessary, to its net realizable value based on customer orders on hand, and internal demand forecasts using management's best estimates given information currently available. Our customer demand is highly unpredictable, and can fluctuate significantly caused by factors beyond the control of the Company. We may write down our inventory value for potential obsolescence and excess inventory. As of March 31, 2015 we have recorded an inventory reserve in the amount of $60,000 for inventory that we have identified as obsolete or slow-moving. As of June 30, 2014, there was no reserve for obsolete or slow-moving inventories.

**Property and Equipment**

Property and equipment are recorded at cost. Significant additions or improvements extending useful lives of assets are capitalized. Maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives as follows:

| | |
|---|---|
| Machinery | 6 years |
| Office equipment | 5 years |
| Molds | 3 years |
| Vehicles | 5 years |
| Computers and software | 5 years |
| Furniture and fixtures | 7 years |
| Facilities | 5 years |

**Goodwill and Intangible Assets**

Goodwill and certain intangible assets were recorded in connection with the FTI acquisition in October 2009, and are accounted for in accordance with ASC 805, "Business Combinations." Goodwill represents the excess of the purchase price over the fair value of the tangible and intangible net assets acquired. Intangible assets are recorded at their fair value at the date of acquisition. Goodwill and other intangible assets are accounted for in accordance with ASC 350, "Goodwill and Other Intangible Assets." Goodwill and other intangible assets are tested for impairment at least annually and any related impairment losses are recognized in earnings when identified. No impairment was recognized during the periods ended March 31, 2015 and June 30, 2014.

The definite lived intangible assets consisted of the following as of March 31, 2015:

| Definite lived intangible assets: | Expected Life | **Average Remaining life** | **Gross Intangible Assets** | **Accumulated Amortization** | **Net Intangible Assets** |
|---|---|---|---|---|---|
| Complete technology | 3 years | – | $490,000 | $ 490,000 | $– |
| Complete technology | 3 years | – | 1,517,683 | 1,517,683 | – |
| Complete technology | 3 years | – | 281,714 | 281,714 | – |
| Complete technology | 3 years | – | 361,249 | 361,249 | – |

| | | | | | |
|---|---|---|---|---|---|
| Complete technology | 3 years | 0.5 | 174,009 | 145,007 | 29,002 |
| Complete technology | 3 years | 0.7 | 909,962 | 657,195 | 252,767 |
| Complete technology | 3 years | 2.0 | 65,000 | 21,666 | 43,334 |
| Complete technology | 3 years | 2.8 | 2,443 | 204 | 2,239 |
| Supply and development agreement | 8 years | 2.6 | 1,121,000 | 770,688 | 350,312 |
| Technology in progress | Not Applicable | – | – | – | – |
| Software | 5 years | 1.4 | 196,795 | 147,412 | 49,383 |
| Patents | 10 years | 7.1 | 53,694 | 945 | 52,749 |
| Certifications and licenses | 3 years | 1.8 | 1,783,561 | 1,278,898 | 504,663 |
| Total as of March 31, 2015 | | | $6,957,110 | $ 5,672,661 | $1,284,449 |

The definite lived intangible assets consisted of the following as of June 30, 2014:

| Definite lived intangible assets: | Expected Life | **Average Remaining life** | **Gross Intangible Assets** | **Accumulated Amortization** | **Net Intangible Assets** |
|---|---|---|---|---|---|
| Complete technology | 3 years | – | $490,000 | $ 490,000 | $– |
| Complete technology | 3 years | – | 1,517,683 | 1,517,683 | – |
| Complete technology | 3 years | 0.5 years | 281,714 | 245,169 | 36,545 |
| Complete technology | 3 years | 1.0 years | 361,249 | 270,949 | 90,300 |
| Complete technology | 3 years | 1.3 years | 174,009 | 101,505 | 72,504 |
| Complete technology | 3 years | 1.5 years | 909,962 | 429,704 | 480,258 |
| Complete technology | 3 years | 2.8 years | 65,000 | 5,417 | 59,583 |
| Supply and development agreement | 8 years | 3.3 years | 1,121,000 | 665,594 | 455,406 |
| Technology in progress | Not Applicable | – | 39,545 | – | 39,545 |
| Software | 5 years | 2.1 years | 196,795 | 115,173 | 81,622 |
| Patents | 10 years | 7.8 years | 52,543 | 761 | 51,782 |
| Certifications and licenses | 3 years | 1.0 years | 1,618,401 | 860,130 | 758,271 |
| Total as of June 30, 2014 | | | $6,827,901 | $ 4,702,085 | $2,125,816 |

Amortization expense recognized during the three months ended March 31, 2015 and 2014 was $317,066 and $341,283, respectively, and during the nine months ended March 31, 2015 and 2014 was $970,576 and $952,215, respectively.

**Long-lived Assets**

In accordance with ASC 360, "Property, Plant, and Equipment," we review for impairment of long-lived assets and certain identifiable intangibles whenever events or circumstances indicate that the carrying amount of assets may not be recoverable. We consider the carrying value of assets may not be recoverable based upon our review of the following events or changes in circumstances: the asset’s ability to continue to generate income from operations and positive cash flow in future periods; loss of legal ownership or title to the asset; significant changes in our strategic business objectives and utilization of the asset; or significant negative industry or economic trends.  An impairment loss would be recognized when estimated future cash flows expected to result from the use of the asset are less than its carrying amount.

As of March 31, 2015, we are not aware of any events or changes in circumstances that would indicate that the long-lived assets are impaired.

**Income Taxes**

We follow ASC 740, Income Taxes, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates, applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Based on the assessment, management believes that the Company is more likely than not to fully realize our deferred tax assets. As such, no valuation allowance has been established for the Company's deferred tax assets. However, the Company may need to establish a valuation allowance should it incur taxable losses in the future.

We adopted ASC 740-10-25 on January 1, 2007, which provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax positions. We must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. We did not recognize any additional liabilities for uncertain tax positions as a result of the implementation of ASC 740-10-25.

As of March 31, 2015, we have no material unrecognized tax benefits. We recorded an income tax benefit of $249,000 and $39,000 for the three and nine months ended March 31, 2015, respectively, and a decrease in prepaid income tax assets of $0 and $147,000 for the three and nine months ended March 31, 2015, respectively.

**Concentrations**

We extend credit to our customers and perform ongoing credit evaluations of such customers. We evaluate our accounts receivable on a regular basis for collectability and provide for an allowance for potential credit losses as deemed necessary. No reserve was required or recorded for any of the periods presented.

Substantially all of our revenues are derived from sales of wireless data products. Any significant decline in market acceptance of our products or in the financial condition of our existing customers could impair our ability to operate effectively.

A significant portion of our revenue is derived from a small number of customers. For the nine months ended March 31, 2015, sales to our two largest customers accounted for 62.8% and 12.5% of our consolidated net sales and 78.9% and 10.8% of our accounts receivable balance as of March 31, 2015. In the same period in 2014, sales to our three largest customers accounted for 31.6%, 16.4%, and 10.6% of our consolidated net sales and 56.1%, 14.9%, and 1.4% of our accounts receivable balance as of March 31, 2014. No other customers accounted for more than ten percent of total net sales for the nine months ended March 31, 2015 and 2014.

For the nine months ended March 31, 2015, we purchased the majority of our wireless data products from one manufacturing company located in Asia. If these manufacturing companies were to experience delays, capacity constraints or quality control problems, product shipments to our customers could be delayed, or our customers could consequently elect to cancel the underlying product purchase order, which would negatively impact the Company's revenue. For the nine months ended March 31, 2015, we purchased wireless data products from this manufacturer in the amount of $22,691,229, or 77.9% of total purchases, and had related accounts payable of $6,392,081 as of March 31, 2015. For the nine months ended March 31, 2014, we purchased wireless data products from three manufacturers in the amount of $11,834,088, or 70.6% of total purchases, and had related accounts payable of $4,313,452 as of March 31, 2014.

We maintain our cash accounts with established commercial banks. Such cash deposits exceed the Federal Deposit Insurance Corporation insured limit of $250,000 for each account. However, the Company does not anticipate any losses on excess deposits.

**NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following as of:

| | March 31, 2015 | June 30, 2014 |
|---|---|---|
| Machinery and facility | $289,665 | $289,664 |
| Office equipment | 365,250 | 356,932 |
| Molds | 747,690 | 714,356 |
| Vehicle | 9,843 | 9,843 |
| Construction in progress | 30,045 | 37,466 |
| | 1,442,493 | 1,408,261 |
| Less accumulated depreciation | (1,089,999) | (909,796) |
| Total | $352,494 | $498,465 |

Depreciation expense associated with property and equipment was $58,885 and $61,636 for the three months ended March 31, 2015 and 2014, respectively, and $180,203 and $188,246 for the nine months ended March 31, 2015 and 2014, respectively.

**NOTE 5 - ACCRUED LIABILITIES**

Accrued liabilities consisted of the following as of:

| | March 31, 2015 | June 30, 2014 |
|---|---|---|
| Accrued salaries, severance | $150,450 | $198,061 |
| Accrued salaries, payroll deductions owed to government entities | 8,595 | 9,381 |
| Accrued vacation | 81,734 | 74,656 |
| Payroll taxes | 6,670 | 5,522 |
| Other accrued liabilities | 7,663 | 29,678 |
| Total | $255,112 | $317,298 |

**NOTE 6 – SHORT-TERM BORROWINGS FROM BANKS**

Short-term borrowings from banks consisted of the following as of:

| | March 31, 2015 | June 30, 2014 |
|---|---|---|
| Loan dated June 2011, due to a financial institution, with principal and monthly interest payments (interest rate of 8.90% per annum), and the original remaining balance due March 2014, which was extended to March 2016 (interest rate of 10.55% per annum as extended) | $148,295 | $148,295 |

The short-term borrowings from banks of $148,295 as of March 31, 2015 and June 30, 2014, resulted from the consolidation of FTI’s debt.

**NOTE 7 – EARNINGS (LOSS) PER SHARE**

We report earnings per share in accordance with ASC 260, "Earnings Per Share." Basic earnings (loss) per share are computed using the weighted average number of shares outstanding during the period. Diluted earnings per share represent basic earnings per share adjusted to include the potentially dilutive effect of outstanding stock options. For the nine months ended March 31, 2014, we were in a net loss position and have excluded 1,056,170 stock options from the calculation of diluted net loss per share because these securities were anti-dilutive. The weighted average number of shares outstanding used to compute earnings per share is as follows:

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net income (loss) attributable to Parent Company | $17,799 | $(131,180) | $725,427 | $(1,097,860) |
| Weighted-average shares of common stock outstanding: | | | | |
| Basic shares outstanding | 10,533,869 | 10,381,785 | 10,533,869 | 10,376,787 |
| Dilutive effect of common stock equivalents arising from stock options | 116,740 | – | 116,740 | – |
| Diluted shares outstanding | 10,650,609 | 10,381,785 | 10,650,609 | 10,376,787 |
| Basic earnings (loss) per share | $0.00 | $(0.01) | $0.07 | $(0.11) |
| Diluted earnings (loss) per share | $0.00 | $(0.01) | $0.07 | $(0.11) |

**NOTE 8 - COMMITMENTS AND CONTINGENCIES**

**Leases**

We lease approximately 11,318 square feet located in San Diego, California, at a monthly rent of $16,576, and the lease expires on August 31, 2015. In addition to monthly rent, the lease provides for periodic cost of living increases in the base rent. Rent expense related to the operating lease was $49,728 for the three months ended March 31, 2015 and 2014 and $149,185 for the nine months ended March 31, 2015 and 2014. Our facility is covered by an appropriate level of insurance and we believe it to be suitable for our use and adequate for our present needs.

Our Korea-based subsidiary, Franklin Technology, Inc. ("FTI"), leases approximately 10,000 square feet of office space in Seoul, Korea, at a monthly rent of approximately $8,000, and the lease expires on September 1, 2015. In addition to monthly rent, the lease provides for periodic cost of living increases in the base rent and payment of common area costs. Rent expense related to the operating lease was approximately $24,000 for the three months ended March 31, 2015 and 2014 and approximately $72,000 for the nine months ended March 31, 2015 and 2014. The facility is covered by an appropriate level of insurance and we believe it to be suitable for our use and adequate for our present needs.

We lease one corporate housing facility for our vendors and employees who travel, under a non-cancelable operating lease that expires on September 13, 2015. During the nine months ended March 31, 2014, we leased an additional corporate housing facility whose lease was terminated in April 2014. Rent expense related to these operating leases was $2,603 and $6,945 for the three months ended March 31, 2015 and 2014, respectively, and $7,983 and $17,877 for the nine months ended March 31, 2015 and 2014, respectively.

**Contingency**

On July 27, 2010, we entered into a Common Stock Repurchase Agreement with C-Motech (the "Agreement"), under which we agreed to repurchase 3,370,356 shares of our Common Stock from C-Motech for $3,500,000. A total of 1,803,684 shares were repurchased on the date of the Agreement in exchange for non-cash consideration in the amount of $1,873,065, which represented amounts owed to the Company by C-Motech for certain marketing funds as well as the settlement of a price dispute for products previously purchased by the Company from C-Motech. Under the Agreement, the remaining 1,566,672 shares were to be repurchased by us upon payment of the balance, $1,626,935, on or before December 31, 2010.

On January 28, 2011 (the "Amendment Date") the Agreement was amended to reflect (1) a change in the date the 1,566,672 shares are to be repurchased from C-Motech from December 31, 2010 to March 31, 2011, and (2) a change to the non-cash consideration of $1,873,065. In exchange for the 1,803,684 shares, we were to pay cash to C-Motech (in the same amount) for the shares, by March 31, 2011. In addition, in a separate agreement dated January 28, 2011, C-Motech agreed to pay us $1,873,065, for amounts owed, by March 31, 2011. The purpose of these revisions was to more clearly differentiate each party's payment obligations to the other with respect to this transaction. Following the Amendment Date, we paid C-Motech $1,873,065 in exchange for the 1,803,684 shares previously transferred to us by C-Motech, and C-Motech paid us $1,873,065 for amounts owed, of which $1,581,457 was booked to other income and $291,608 was booked to cost of goods sold. The repurchase of the remaining 1,566,672 shares from C-Motech was not completed. We have provided formal notification to C-Motech that it is in breach of its obligations and we have also provided a demand to sell the shares back to us. We have attempted to tender payment for the shares without results. We were previously advised that there are two individuals, Cheng-Ji Zhu and Ok-Nam Yun, who claim to have purchased the shares from C-Motech through its former CEO; however, the authority of the former CEO to agree to the sale of the shares was disputed by C-Motech. The ownership of the shares was the subject of litigation involving Cheng-Ji Zhu and Ok-Nam Yun and C-Motech in U.S. and Korean courts. On April 1, 2015 the Circuit Court of Cook County, Illinois County Department, Chancery Division issued an Order with respect to the matter of Cheng-Ji Zhu and Ok-Nam Yun, plaintiffs, v. Integrity Stock Transfer and Registrar, Mountain Share Transfer, Inc. and C-Motech Company Ltd., defendants. The order recognizes and enforces the plaintiff's Motion to Recognize and Enforce Foreign Judgment in which the plaintiffs previously prevailed over C-Motech with respect to the ownership of the 1,566,672 shares of Franklin Wireless Common Stock in an action that took place in Korea. As of the date of this Report, C-Motech is the registered owner of certificates representing 1,566,672 shares, which were issued by the Company in C-Motech’s name.

On May 7, 2013, we filed a lawsuit against C-Motech in the Superior Court of California for the County of San Diego for breach of the Agreement and breach of other contracts between the parties relating to indemnification and other obligations. On February 25, 2014, C-Motech answered the complaint and on February 26, 2014, C-Motech filed a Notice of Removal from the Superior Court of the State of California for the County of San Diego to the United States District Court for the Southern District of California. On June 19, 2014, C-Motech filed a voluntary petition for relief under Chapter 15 of the U.S. Bankruptcy Code and on June 27, 2014, C-Motech filed a Motion for Recognition of a Foreign Main Proceeding under Chapter 15 of the U.S. Bankruptcy Code and Further Relief. On July 10, 2014, this motion was heard in the U.S. Bankruptcy Court for the Southern District of California during which the Court ordered that C-Motech's bankruptcy proceeding in South Korea was recognized as a foreign main proceeding and that our lawsuit against C-Motech in the U.S. District Court is stayed. The effect of this ruling is that we must participate in C-Motech's bankruptcy proceeding in South Korea if we wish to pursue our various claims against C-Motech. We are currently considering our options with respect to this ruling.

As of March 31, 2015, C-Motech is the record owner of 1,566,672 shares, or 15%, of our outstanding Common Stock.

**Litigation**

We are from time to time involved in certain legal proceedings and claims arising in the ordinary course of business.

**Novatel Wireless, Inc.**

On December 10, 2010, Novatel Wireless, Inc. filed a complaint in the United States District Court for the Southern District of California, against us and one other defendant. The complaint alleges that certain products, including, but not limited to, mobile data hot spots and data modems, infringe on U.S. Patent Nos. 5,129,098; 7,318,225; 7,574,737 and 7,319,715. On April 13, 2012, the plaintiff filed a Second Amended Complaint which amended certain claims and added U.S. Patent No. 7,944,901 to the original complaint. On April 27, 2012, we filed a Motion to Dismiss the Second Amended Complaint as to certain of the claims. On July 6, 2012, the Court held oral argument on the Motion to Dismiss and on July 19, 2012, the Court issued an order granting in part and denying in part the Motion to Dismiss. On August 2, 2012, we answered the complaint and an Early Neutral Evaluation Conference took place on October 31, 2012 and a follow-up Settlement Conference was held on June 12, 2013. A claim construction hearing took place on October 9, 2014. On November 25, 2014, the Court granted plaintiff's Joint Motion to Joinder of Required Party, which added Nova Intellectual Solutions, LLC as a plaintiff to this litigation. This matter is currently in the discovery phase. Due to the preliminary nature of these proceedings, we do not believe an amount of loss, if any, can be reasonably estimated for this matter. We intend to vigorously defend ourselves against these allegations.

On April 24, 2015, Nova Intellectual Solutions, LLC filed a complaint in the United States District Court for the Southern District of California, against us and FTI. The complaint alleges that one of the Company's products infringes on U.S. Patent No. 7,944,901. As of the date of this Report, neither we nor FTI have been served with the complaint. Due to the preliminary nature of these proceedings, we do not believe an amount of loss, if any, can be reasonably estimated for this matter. We intend to vigorously defend ourselves against these allegations.

**C-Motech Co., Ltd.**

On May 7, 2013, we filed a lawsuit against C-Motech Co., Ltd. in the Superior Court of California for the County of San Diego for breach of a Common Stock Repurchase Agreement we entered into with C-Motech On July 27, 2010. Under that Agreement, we agreed to repurchase 3,370,356 shares of our Common Stock from C-Motech for $3,500,000. A total of 1,803,684 shares were repurchased on the date of the Agreement in exchange for non-cash consideration in the amount of $1,873,065, and the remaining 1,566,672 shares were to be repurchased by us upon payment of the balance, $1,626,935, on or before December 31, 2010. This date was extended to March 31, 2011 and certain other changes made by an Amendment to the Agreement, as more particularly described in Item 13 below. However, the repurchase of the remaining 1,566,672 shares was not completed, notwithstanding our formal demand to C-Motech to sell the shares back to us and our attempt to tender payment for the shares. Accordingly, the action seeks damages, specific performance and declaratory relief for breach of the Common Stock Repurchase Agreement. The action also seeks indemnification from C-Motech for breach of other contracts between the parties relating to indemnification and intentional interference with certain other contracts. On February 25, 2014, C-Motech answered the complaint and on February 26, 2014, C-Motech filed a Notice of Removal from the Superior Court of the State of California for the County of San Diego to the United States District Court for the Southern District of California. On June 19, 2014, C-Motech filed a voluntary petition for relief under Chapter 15 of the U.S. Bankruptcy Code and on June 27, 2014, C-Motech filed a Motion for Recognition of a Foreign Main Proceeding under Chapter 15 of the U.S.

Bankruptcy Code and Further Relief. On July 10, 2014, this motion was heard in the U.S. Bankruptcy Court for the Southern District of California during which the Court ordered that C-Motech's bankruptcy proceeding in South Korea was recognized as a foreign main proceeding and that our lawsuit against C-Motech in the U.S. District Court is stayed. The effect of this ruling is that we must participate in C-Motech's bankruptcy proceeding in South Korea if we wish to pursue our various claims against C-Motech. We are currently considering our options with respect to this ruling.

**Cell and Network Selection LLC**

On October 1, 2013, Cell and Network Selection LLC filed a complaint in the United States District Court for the Eastern District of Texas, Tyler Division against one of our customers as one of several defendants. The complaint alleges that certain wireless devices, including one device provided by the Company, infringe on U.S. Patent No. 6,195,551. As of March 31, 2015, this legal proceeding is pending, but we do not believe this action will have a material effect on the Company.

**Concinnitas, LLC**

On December 3, 2013, Concinnitas, LLC filed a complaint against us in the United States District Court for the Eastern District of Texas, Marshall Division. The complaint alleges that at least one product model sold by the Company infringes U.S. Patent No. 7,805,542. The product model identified in the complaint was purchased by the Company from one of our suppliers. On August 28, 2014, the parties, including our supplier, entered into a Patent License, Settlement and Release Agreement and filed a request with the Court to dismiss this action. On September 2, 2014, the U.S. District Court for the Eastern District of Texas, Marshall Division, issued an Order approving the dismissal, with prejudice, of the action filed by Concinnitas, LLC.

**Change of Control Agreements**

On September 21, 2009 we entered into Change of Control Agreements with OC Kim, our President, Yun J. (David) Lee, our Chief Operating Officer, and Yong Bae Won, our Vice President, Engineering. Each Change of Control Agreement provides for a lump sum payment to the officer in case of a change of control of the Company. The term includes the acquisition of Common Stock of the Company resulting in one person or company owning more than 50% of the outstanding shares, a significant change in the composition of the Board of Directors of the Company during any 12-month period, a reorganization, merger, consolidation or similar transaction resulting in the transfer of ownership of more than fifty percent (50%) of the Company's outstanding Common Stock, or a liquidation or dissolution of the Company or sale of substantially all of the Company's assets.

The Change of Control Agreement with Mr. Kim is for three years and calls for a payment of $5 million upon a change of control; the agreement with Mr. Lee is for two years and calls for a payment of $2 million upon a change of control; and the agreement with Mr. Won is for two years and calls for a payment of $1 million upon a change of control.

The Board of Directors has approved extension of the Change of Control Agreements with Mr. Kim, and Mr. Lee through September 21, 2017. The Change of Control Agreement with Mr. Won expired on September 21, 2014 and was not renewed or extended.

**NOTE 9 – LONG-TERM INCENTIVE PLAN AWARDS**

We apply the provisions of ASC 718, “Compensation – Stock Compensation,” using a modified prospective application, and the Black-Scholes model. Under this application, we are required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. Compensation costs will be recognized over the period that an employee provides service in exchange for the award.

We adopted the 2009 Stock Incentive Plan (“2009 Plan”) on June 11, 2009, which provided for the grant of incentive stock options and non-qualified stock options to our employees and directors. Options granted under the 2009 Plan generally have a term of ten years and generally vest and become exercisable at the rate of 33% after one year and 33% on the second and third anniversaries of the option grant dates. Historically, some stock option grants have included shorter vesting periods ranging from one to two years.

The estimated forfeiture rate considers historical turnover rates stratified into employee pools in comparison with an overall employee turnover rate, as well as expectations about the future. We periodically revise the estimated forfeiture rate in subsequent periods if actual forfeitures differ from those estimates. Compensation expense recorded under this method for the three and nine months ended March 31, 2015 was $9,770 and $52,721, respectively, and reduced operating income and income before taxes by the same amounts by increasing compensation expense recognized in selling and administrative expense. The recognized tax benefit related to the compensation expense for the nine months ended March 31, 2015 was approximately $0.

A summary of the status of our stock options is presented below:

| **Options** | **Shares** | **Weighted-Average Exercise Price** | **Weighted-Average Remaining Contractual Life (In Years)** | **Aggregate Intrinsic Value** |
|---|---|---|---|---|
| Outstanding as of June 30, 2014 | 895,337 | $ 1.24 | 5.50 | $ 497,350 |
| Granted | – | | | |
| Exercised | – | | | |
| Cancelled | (45,000) | | | |
| Forfeited or Expired | – | | | |
| Outstanding as of March 31, 2015 | 850,337 | $ 1.24 | 4.61 | $ 434,133 |
| Exercisable as of March 31, 2015 | 770,332 | $ 1.23 | 4.34 | $ 401,333 |

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based upon the Company's closing stock price of $1.75 as of March 31, 2015, which would have been received by the option holders had all option holders exercised their options as of that date. The weighted-average grant-date fair value of stock options outstanding as of March 31, 2015 in the amount of 850,337 shares was $1.15 per share.

As of March 31, 2015, there was $20,263 of total unrecognized compensation cost related to non-vested stock options granted. That cost is expected to be recognized over a weighted-average period of 0.43 years.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and related notes included elsewhere in this report. This report contains certain forward-looking statements relating to future events or our future financial performance. These statements are subject to risks and uncertainties which could cause actual results to differ materially from those discussed in this report. You are cautioned not to place undue reliance on this information, which speaks only as of the date of this report. We are not obligated to publicly update this information, whether as a result of new information, future events or otherwise, except to the extent we are required to do so in connection with our obligation to file reports with the SEC. For a discussion of the important risks to our business and future operating performance, see the discussion under the caption "Item 1A. Risk Factors" and under the caption "Factors That May Influence Future Results of Operations" in the Company's Form 10-K for the year ended June 30, 2014, filed on September 29, 2014. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this report might not occur.

**BUSINESS OVERVIEW**

We are a leader in intelligent wireless solutions including mobile hotspots, routers and modems as well as innovative hardware and software products that support machine-to-machine (M2M) applications and the Internet of Things (IoT). Our M2M and IOT solutions include embedded modules, modems and gateways built to deliver reliable always-on connectivity supporting a broad spectrum of applications. These products are designed to solve wireless connectivity challenges in a variety of vertical markets including video surveillance, digital signage, home security, oil and gas exploration, kiosks, fleet management, smart grid, vehicle diagnostics, telematics and many more.

We have a majority ownership position in Franklin Technology Inc. (FTI), a research and development facility located in Seoul, South Korea. FTI primarily provides design and development services to us for our wireless products.

Our products are generally marketed and sold directly to wireless operators, and indirectly through strategic partners and distributors. Our global customer base extends primarily from the United States to countries in South America, the Caribbean, Europe, the Middle East and Africa ("EMEA") and Asia.

**FACTORS THAT MAY INFLUENCE FUTURE RESULTS OF OPERATIONS**

We believe that our revenue growth will be influenced largely by (1) the successful maintenance of our existing customers, (2) the rate of increase in demand for wireless data products, (3) customer acceptance of our new products, (4) new customer relationships and contracts, and (5) our ability to meet customers' demands.

We have entered into and expect to continue to enter into new customer relationships and contracts for the supply of our products, and this may require significant demands on our resources, resulting in increased operating, selling, and marketing expenses associated with such new customers.

**CRITICAL ACCOUNTING POLICIES**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of these financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Management evaluates these estimates and assumptions on an ongoing basis. Our estimates and assumptions have been prepared on the basis of the most current reasonably available information. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates under different assumptions and conditions.

We have several critical accounting policies, which were described in our Annual Report on Form 10-K for the year ended June 30, 2014, that are both important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective and complex judgments. Typically, the circumstances that make these judgments difficult, subjective and complex have to do with making estimates about the effect of matters that are inherently uncertain. There were no material changes to our critical accounting policies during the three months ended March 31, 2015.

**RESULTS OF OPERATIONS**

The following table sets forth, for the three and nine months ended March 31, 2015 and 2014, our statements of operations including data expressed as a percentage of sales:

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of goods sold | 81.5% | 90.2% | 81.6% | 83.2% |
| Gross profit | 18.5% | 9.8% | 18.4% | 16.8% |
| Operating expenses | 18.3% | 17.5% | 16.6% | 29.0% |
| Income (loss) from operations | 0.2% | (7.7%) | 1.8% | (12.2%) |
| Other income, net | 0.2% | 5.5% | 1.2% | 3.7% |
| Net income (loss) before income taxes | 0.4% | (2.2%) | 3.0% | (8.5%) |
| Income tax provision (benefit) | (2.4%) | (0.9%) | (0.1%) | (2.8%) |
| Net income (loss) | 2.8% | (1.3%) | 3.1% | (5.7%) |
| Non-controlling interest in net income of subsidiary | (2.6%) | 0.0% | (1.1%) | (0.1%) |
| Net income (loss) attributable to Parent Company stockholders | 0.2% | (1.3%) | 2.0% | (5.8%) |

**THREE MONTHS ENDED MARCH 31, 2015 COMPARED TO THREE MONTHS ENDED MARCH 31, 2014**

**NET SALES** - Net sales increased by $119,529, or 1.2%, to $10,174,842 for the three months ended March 31, 2015 from $10,055,313 for the corresponding period of 2014. For the three months ended March 31, 2015, net sales by geographic regions, consisting of South America and the Caribbean, the United States, EMEA (Europe, the Middle East and Africa) and Asia, were $0 (0.0% of net sales), $6,999,431 (68.8% of net sales), $3,154,126 (31.0% of net sales) and $21,285 (0.2% of net sales), respectively. For the three months ended March 31, 2014, net sales by geographic regions, consisting of South America and the Caribbean, the United States, EMEA (Europe, the Middle East and Africa) and Asia, were $15,240 (0.1% of net sales), $5,007,627 (49.8% of net sales), $1,295,931 (12.9% of net sales) and $3,736,515 (37.2% of net sales), respectively.

Net sales in the South American and Caribbean regions decreased by $15,240, or 100%, to $0 for the three months ended March 31, 2015 from $15,240 for the corresponding period of 2014. The decrease in net sales was primarily due to the general nature of sales in these regions, which often fluctuate significantly from period to period due to timing of orders placed by a relatively small number of customers. Net sales in the United States increased by $1,991,804, or 39.8%, to $6,999,431 for the three months ended March 31, 2015 from $5,007,627 for the corresponding period of 2014. The increase in net sales was primarily due to the launch of a new product that took place during the second quarter of fiscal 2015. This increase was partially offset by decreases in net sales due to a product that reached its end-of-life with a carrier customer, and another carrier customer who did not make any repeat purchases during the third quarter of fiscal 2015. Net sales in EMEA increased by $1,858,195, or 143.3%, to $3,154,126 for the three months ended March 31, 2014 from $1,295,931 for the corresponding period of 2014. The increase in net sales was due to timing of orders placed by a carrier customer in Africa. Net sales in Asia decreased by $3,715,230, or 99.4%, to $21,285 for the three months ended March 31, 2015 from $3,736,515 for the corresponding period of 2014. The decrease in net sales was primarily due to lower product and component sales generated by FTI, which typically vary from period to period.

**GROSS PROFIT** – Gross profit increased by $891,572, or 90.1%, to $1,881,314 for the three months ended March 31, 2015 from $989,742 for the corresponding period of 2014. The gross profit in terms of net sales percentage was 18.5% for the three months ended March 31, 2015 compared to 9.8% for the corresponding period of 2014. The increase in gross profit and the gross profit in terms of net sales percentage was primarily due to variations in customer and product mix, competitive selling prices and product costs which generally vary from period to period and region to region.

**OPERATING EXPENSES** - Operating expenses increased by $106,159, or 6.0%, to $1,867,975 for the three months ended March 31, 2015 from $1,761,816 for the corresponding period of 2014. The increase was primarily due to higher shipping and handling expenses resulting from the volume increase in product shipments to the United States and higher research and development costs due to increased headcount, which were partially offset by lower share-based compensation expense.

**OTHER INCOME, NET** - Other income, net decreased by $534,824, or 95.9%, to $23,057 for the three months ended March 31, 2015 from $557,881 for the corresponding period of 2014. The decrease was primarily due to the difference in the amount of expenses that were reversed associated with certain marketing related activities that were accrued and prior periods which expired during the three months ended March 31, 2015 and 2014.

**NINE MONTHS ENDED MARCH 31, 2015 COMPARED TO NINE MONTHS ENDED MARCH 31, 2014**

**NET SALES** - Net sales increased by $17,269,345 or 90.8%, to $36,285,606 for the nine months ended March 31, 2015 from $19,016,261 for the corresponding period of 2014. For the nine months ended March 31, 2015, net sales by geographic regions, consisting of South America and the Caribbean, the United States, EMEA (Europe, the Middle East and Africa) and Asia, were $1,415,052 (3.9% of net sales), $26,725,077 (73.7% of net sales), $4,517,524 (12.4% of net sales) and $3,627,953 (10.0% of net sales), respectively. For the nine months ended March 31, 2014, net sales by geographic regions, consisting of South America and the Caribbean, the United States, EMEA (Europe, the Middle East and Africa) and Asia, were $1,854,320 (9.7% of net sales), $10,089,868 (53.1% of net sales), $2,056,068 (10.8% of net sales) and $5,016,005 (26.4% of net sales), respectively.

Net sales in the South American and Caribbean regions decreased by $439,268, or 23.7%, to $1,415,052 for the nine months ended March 31, 2015 from $1,854,320 for the corresponding period of 2014. The decrease in net sales was primarily due to the general nature of sales in these regions, which often fluctuate significantly from period to period due to timing of orders placed by a relatively small number of customers. Net sales in the United States increased by $16,635,209, or 164.9%, to $26,725,077 for the nine months ended March 31, 2015 from $10,089,868 for the corresponding period of 2014. The increase in net sales was primarily due to the launch of two new products; one took place during the second quarter of fiscal 2015, and the other took place at the end of the second quarter of fiscal 2014. These increases were partially offset by a decrease in net sales due to a customer who did not make any repeat purchases during the nine months ending March 31, 2015. Net sales in EMEA increased by $2,461,456, or 119.7%, to $4,517,524 for the nine months ended March 31, 2015 from $2,056,068 for the corresponding period of 2014. The increase in net sales was due to timing of orders placed by a carrier customer in Africa. Net sales in Asia decreased by $1,388,052, or 27.7%, to $3,627,953 for the nine months ended March 31, 2015 from $5,016,005 for the corresponding period of 2014. The decrease in net sales was primarily due to lower product and component sales generated by FTI, which typically vary from period to period.

**GROSS PROFIT** – Gross profit increased by $3,489,559, or 109.2%, to $6,684,639 for the nine months ended March 31, 2015 from $3,195,080 for the corresponding period of 2014. The increase in gross profit was primarily due to the change in net sales as described above. The gross profit in terms of net sales percentage was 18.4% for the nine months ended March 31, 2015 compared to 16.8% for the corresponding period of 2014. The increase in gross profit in terms of net sales percentage was due to variations in customer and product mix, competitive selling prices and product costs which generally vary from period to period and region to region.

**OPERATING EXPENSES** - Operating expenses increased by $497,605, or 9.0%, to $6,016,662 for the nine months ended March 31, 2015 from $5,519,057 for the corresponding period of 2014. The increase was primarily due to higher shipping and handling expenses resulting from the volume increase in product shipments and higher research and development costs due to increased headcount, which were partially offset by lower share-based compensation expense and lower commissions paid to third parties.

**OTHER INCOME, NET** - Other income, net decreased by $292,902, or 41.9%, to $406,720 for the nine months ended March 31, 2015 from $699,622 for the corresponding period of 2014. The decrease was primarily due to the difference in the amount of expenses that were reversed associated with certain marketing related activities that were accrued in prior periods which expired during the nine months ended March 31, 2015 and 2014.

**LIQUIDITY AND CAPITAL RESOURCES**

Our historical operating results, capital resources and financial position, in combination with current projections and estimates, were considered in management's plan and intentions to fund our operations over a reasonable period of time, which we define as the twelve month period ending March 31, 2016. For purposes of liquidity disclosures, we assess the likelihood that we have sufficient available working capital and other principal sources of liquidity to fund our operating activities and obligations as they become due.

Our principal source of liquidity as of March 31, 2015 consisted of cash and cash equivalents of $10,831,825. We believe we have sufficient available capital to cover our existing operations and obligations through at least March 31, 2016. Our long-term future cash requirements will depend on numerous factors, including our revenue base, profit margins, product development activities, market acceptance of our products, future expansion plans and ability to control costs. If we are unable to achieve our current business plan or secure additional funding that may be required, we would need to curtail our operations or take other similar actions outside the ordinary course of business in order to continue to operate as a going concern.

**OPERATING ACTIVITIES** – Net cash provided by operating activities for the nine months ended March 31, 2015 was $3,082,094, and net cash used in operating activities for the nine months ended March 31, 2014 was $680,779.

The $3,082,094 in net cash provided by operating activities for the nine months ended March 31, 2015 was primarily due to the increase in accounts payable of $1,450,627 as well as our operating results ( net income adjusted for depreciation, amortization and other non-cash charges). The $680,779 in net cash used in operating activities for the nine months ended March 31, 2014 was primarily due to increases in accounts receivable and inventory of $1,230,619 and $1,927,636, respectively, the increase in accounts payable of $3,666,908 as well as our operating results (net income adjusted for depreciation, amortization and other non-cash charges).

**INVESTING ACTIVITIES** – Net cash used in investing activities for the nine months ended March 31, 2015 and 2014 was $156,313 and $558,077, respectively.

The $156,313 in net cash used in investing activities for the nine months ended March 31, 2015 was primarily due to the payments for capitalized product development of $81,591 and purchases of intangible assets and property and equipment of $47,618 and $34,232, respectively. We capitalize product development and certification costs because such products are expected to be sold in future periods and provide economic benefit to the Company. The $558,077 in net cash used in investing activities for the nine months ended March 31, 2014 was primarily due to the payments for capitalized product development and purchases of property and equipment of $521,068 and $111,681, respectively, which were partially offset by the repayment of a loan from a third party of $103,191.

**FINANCING ACTIVITIES** – Net cash provided by financing activities for the nine months ended March 31, 2015 and 2014 was $0 and $17,361, respectively.

The $17,361 in net cash provided by financing activities for the nine months ended March 31, 2014 was primarily due to the issuance of stock related to stock options exercised.

**CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS**

**Leases**

We lease approximately 11,318 square feet located in San Diego, California, at a monthly rent of $16,576, and the lease expires on August 31, 2015. In addition to monthly rent, the lease provides for periodic cost of living increases in the base rent. Rent expense related to the operating lease was $49,728 for the three months ended March 31, 2015 and 2014 and $149,185 for the nine months ended March 31, 2015 and 2014. Our facility is covered by an appropriate level of insurance and we believe it to be suitable for our use and adequate for our present needs.

Our Korea-based subsidiary, Franklin Technology, Inc. ("FTI"), leases approximately 10,000 square feet of office space in Seoul, Korea, at a monthly rent of approximately $8,000, and the lease expires on September 1, 2015. In addition to monthly rent, the lease provides for periodic cost of living increases in the base rent and payment of common area costs. Rent expense related to the operating lease was approximately $24,000 for the three months ended March 31, 2015 and 2014 and approximately $72,000 for the nine months ended March 31, 2015 and 2014. The facility is covered by an appropriate level of insurance and we believe it to be suitable for our use and adequate for our present needs.

We lease one corporate housing facility for our vendors and employees who travel, under a non-cancelable operating lease that expires on September 13, 2015. During the nine months ended March 31, 2014, we leased an additional corporate housing facility whose lease was terminated in April 2014. Rent expense related to these operating leases was $2,603 and $6,945 for the three months ended March 31, 2015 and 2014, respectively, and $7,983 and $17,877 for the nine months ended March 31, 2015 and 2014, respectively.

Effect of Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-09 ("ASU 2014-09"), Revenue from Contracts with Customers. This amendment updates addressing revenue from contracts with customers, which clarifies existing accounting literature relating to how and when a company recognizes revenue. Under the standard, a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. The amendments for this standard update are effective for the interim and annual reporting periods beginning after December 15, 2016, and are to be applied retrospectively or the cumulative effect as of the date of adoption, with early application not permitted. In April 2015, the FASB voted to propose a one year deferral of the effective date of the new guidance. We are currently evaluating the impact of ASU 2014-09 will have on our consolidated financial statements and related disclosures.

In June 2014, the FASB issued Accounting Standards Update 2014-12 ("ASU 2014-12"), Compensation - Stock Compensation. This amendment requires that a performance target that affects vesting and could be achieved after the requisite service period shall be treated as a performance condition. Adoption of this standard is required for annual periods beginning after December 15, 2015. Early adoption is permitted. We are currently evaluating the impact of ASU 2014-12 will have on our consolidated financial statements and related disclosures.

In August 2014, the FASB issued Accounting Standards Update 2014-15 ("ASU 2014-15"), which requires management to assess an entity's ability to continue as a going concern every reporting period including interim periods, and to provide related footnote disclosure in certain circumstances. Adoption of this standard is required for annual periods beginning after December 15, 2016 and are to be applied retrospectively or the cumulative effect as of the date of adoption. Early adoption is permitted. We are currently evaluating the impact of ASU 2014-15 will have on our consolidated financial statements and related disclosures.

**OFF-BALANCE SHEET ARRANGEMENTS**

None.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As a “smaller reporting company,” the Company is not required to respond to this item.

**ITEM 4. CONTROLS AND PROCEDURES**

Disclosure Controls and Procedures

The Company’s President and Chief Financial Officer have concluded, based on an evaluation of the Company’s disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15(d)-15(e)), that such disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company’s internal control over financial reporting during the three months ended March 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We have provided information about legal proceedings in which we are involved in Note 8 of the notes to consolidated financial statements for the nine months ended March 31, 2015, contained within this Quarterly Report on Form 10-Q.

### ITEM 1A. RISK FACTORS

Our Annual Report on Form 10-K for the fiscal year ended June 30, 2014, filed with the SEC on September 29, 2014 (the “Annual Report”), includes a detailed discussion of our risk factors under the heading “PART I, ITEM 1A – RISK FACTORS.” You should carefully consider the risk factors discussed in our Annual Report, as well as other information in this quarterly report. Any of these risks could cause our business, financial condition, results of operations and future growth prospects to suffer. We are not aware of any material changes from the risk factors previously disclosed.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. MINE SAFETY DISCLOSURES

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

| | |
|---|---|
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Schema Document |
| 101.CAL | XBRL Calculation Linkbase Document |
| 101.DEF | XBRL Definition Linkbase Document |
| 101.LAB | XBRL Label Linkbase Document |
| 101.PRE | XBRL Presentation Linkbase Document |

SIGNATURES

In accordance with Section 13 of 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Franklin Wireless Corp.

By: /s/ OC Kim
OC Kim

President

(Principal Executive Officer)

By: /s/ Richard T. Walker
Richard T. Walker

Chief Financial Officer

(Principal Financial Officer)

Dated: May 15, 2015