FRANKLIN WIRELESS CORP
Form 10KSB/A
April 02, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB/A

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OF 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-11616

FRANKLIN WIRELESS CORP.
(Name of small business issuer in its charter)

California	95-3733534
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

9823 Pacific Heights Blvd., Suite J, San Diego, California 92121
(Address of Principal Executive Offices) (Zip Code)

Issuer's Telephone Number: (858) 623-0000

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, without par value

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

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 [] No [X]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

The issuer's revenue for its most recent fiscal year was $1,002,953.

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as a specified date within the past 60 days: $6,090,948 as of September 20, 2006.

State the number of shares outstanding of each of the issuer's class of common stock, as of the latest practicable date:

TITLE OF EACH CLASS OF COMMON STOCK	OUTSTANDING AT September 20, 2006
Common Stock, without par value	882,040,050

Transitional Small Business Disclosure Format (Check one) Yes [ ]; No [X]

FRANKLIN WIRELESS CORP.
INDEX TO ANNUAL REPORT ON FORM 10-KSB
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

INTRODUCTION AND NOTE ON FORWARD LOOKING STATEMENTS

Franklin Wireless Corp. (the "Company" or "Franklin" or "our" or "we") is a California corporation; its principal executive office is located at 9823 Pacific Heights Blvd. Suite J, San Diego, CA 92121.

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

- the terms "we," "us," "our", "Franklin", "Franklin Wireless", or the "Company" refer to Franklin Wireless Corp. and its subsidiary; and
- our fiscal year ends on June 30; references to fiscal 2006 and fiscal 2005 and similar constructions refer to the fiscal year ended on June 30 of the applicable year.

This Annual Report on Form 10-KSB 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 captions "Business," "Management's Discussion and Analysis or Plan of Operation", and elsewhere in this Annual Report on Form 10-KSB. 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 these words 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 "Risks Related to Our Business." These forward looking statements are made only as of the date of this Annual Report on Form 10-KSB. 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

ITEM 1. DESCRIPTION OF BUSINESS

BUSINESS OVERVIEW

At Franklin Wireless Corp., we design, build and market broadband high speed data communication products, such as 3rd Generation wireless modules and modems. Franklin is dedicated to serving the global wireless community by becoming a leading developer/marketer of wireless communications devices and enabling technologies, as well as an applications provider catering to the dynamic needs of its customers, global wireless carriers. Franklin's wireless broadband data products include wireless USB modems, PC cards, embedded modules, and stand-alone broadband modems used for high-speed data services. The basis for most of our products is Code Division Multiple Access (CDMA) technology. In addition, as a wireless technologies/applications provider, Franklin offers services designed to meet specific needs of each of its customers.

We are committed to developing a reputation for:

- Developing next-generation wireless communications products at affordable prices and ensuring timely and reliable product delivery,
- Flexibility in providing wireless enabling technologies that satisfy the specific needs of each carrier, and
- Deploying client-specific, value-enhancing, wireless applications

Our products are marketed through Original Equipment Manufacturers ("OEMs") and distributors, as well as directly to operators and end users. Our customers are located primarily in the United States, Canada, and South America including cellular operators and government agencies. .

OUR STRUCTURE

Franklin Wireless, headquartered in San Diego, California, is comprised of two segments: a San Diego-based business unit, including corporate functions, and a Korea-based business unit mainly to support the manufacturing of products.

The San Diego office is principally composed of marketing, sales, operations, finance and administrative support. It is responsible for all customer-related activities, such as marketing communications, product planning, product management and customer support, along with sales and business development activities on a worldwide basis.

The Korea-based business unit is a wholly owned subsidiary, and is responsible for researching wireless subscriber terminal devices and supporting manufacturing of wireless broadband devices. This entity has been inactive since August 2003.

OUR PRODUCTS AND SERVICES

We offer two distinct product segments: our CDMA 1xEVDO Embedded Module and USB/PC card Modem Segment, and our Data Application Supporting Segment.

Our CDMA Embedded Module and USB/PC Card Segment represents our greatest growth opportunity. In 2004, the market for embedded wireless modules grew at an unprecedented rate, especially in the GSM space. The extraordinary success of the GSM module companies has paved the way for an equally successful module venture based on the CDMA technology that has been widely adopted, and is expected to occupy more than 40% of the global wireless market share in 2006. However, CDMA technology is highly complex, and few companies possess the expertise required to develop CDMA products. Accordingly, only a few CDMA companies are capable of creating CDMA modules and seizing this opportunity.

To support this rapidly expanding market, major wireless device manufacturers are planning to integrate embedded CDMA modules into their application products. The current low-speed data subscriber base also represents a substantial potential market opportunity for CDMA 1x EVDO modules. Since the next-generation (3G) wireless technologies are based on the CDMA high speed data technology, GSM developers will soon be required to add CDMA capabilities to their devices.

In this rapidly growing market segment, the Company currently has two products: a dual-band (800/1900Mhz) embedded module/modem for the US and Latin American markets, and a single band (800Mhz) module/modem for the Latin America market. All of the present products are based on Qualcomm's MSM 5500/6500 technology. The Company plans to market its existing 1x EVDO embedded modem and USB/PCMCIA modem products to operators in the US and Latin America during 2006. In addition, the Company is in the process of developing a dual band USB modem, stand-alone wireless terminal and Express card based on Qualcomm's 1x EV-DO 6800 Rev A technology. Working with its Korean development partner CMOTech, Inc., the Company has initiated the development of a single band PC card and USB modem access device, as well as a stand-alone wireless modem based on Qualcomm's 5500 series and 6500 series chipset. Accordingly, our product lines have been expanded to address the US and Latin American markets to get certifications and sales.

In the next few years, we see great potential for our new line of CDMA 1x EV-DO based products. For the first time, 1x EV-DO will provide users with broadband speeds (up to 2.4Mbps) wirelessly in wide-area coverage. This third generation, or 3G, technology is just now being deployed commercially by major US wireless carriers committing to a nationwide 1x Ev-Do network deployment, as well as other wireless carriers planning to incorporate Qualcomm's CDMA 2000 1x EV-DO as their 3G wireless data standard in the US and Latin America. 1x EV-DO is particularly advantageous in regions as an alternative to wired broadband (e.g., DSL and cable) and in regions where wired broadband access is simply unavailable despite the need and demand for such services. Franklin aims to work closely with carriers deploying 1x EV-DO in order to develop the 3G terminals that best meet their commercial needs in the US and Latin American market.

Franklin's Data Application Supporting Segment collaborates with major carriers and wireless product manufacturers and provides them with solutions that meet their specific needs. This segment will be provided majority of our revenue in the near future. Franklin believes that the consumer product market is experiencing consolidation and rapid changes, making it less attractive to Franklin. Therefore, the management has elected to focus Franklin's resources on the wireless data module business segment. This will shift in focus aligns our marketing resources and engineering capabilities behind our core product business units.

SALES AND MARKETING

We market our products through two channels: directly to operators and indirectly, through strategic partners. Most of our sales to wireless carriers and OEMs are sold directly by our sales force.

There are three steps to test for the sales of the data products with carriers: CDG1 (CDMA Development Group Stage 1), CDG 2 and CDG 3. The Company is currently selling the CDU-550 1x EVDO USB modem after completion of certifications with one of the major carriers in the US and approximately ten CDMA carriers in Latin America. Some units have been shipped to carriers in

Latin America as samples for the certifications and marketing evaluation purpose.

The carriers are interested in 1x EVDO single and dual band USB modem product for laptop computers or handheld devices equipped with USB but not equipped with PCMCIA slots. The Company's CDU-550 and CCU-550 are the first products to access the internet over CDMA 1xEVDO network with a USB modem. These products are designed for the users to browse the internet and send and receive e-mail anywhere and anytime in the CDMA 1xEVDO network. The Company has introduced a stand-alone modem for application companies, such as wireless security and telemetric companies, as well as the convergence products, EVDO to Ethernet Router and EVDO Access Point which was combined with EVDO and WiFi solution. The EVDO access point product is designed for the small office or home office using several PCs at the same time.

ASSEMBLY AND MANUFACTURING OPERATIONS

The Company's main facility is located in San Diego, California. Assembly of the Company's products has ordinarily been contracted out to an overseas manufacturing company in South Korea. In May 2005, the Company entered into an agreement with CMotech Co. Ltd., located in South Korea, for the manufacture of the products. Under the manufacturing and supply agreement, CMotech provides the Company with services including all licenses, component procurement, final assembly, testing, quality control, fulfillment and after-sale service.

EMPLOYEES

As of June 30, 2006, the Company had six full time employees and two part time employees. The Company's employees are not represented by any collective bargaining organization, and the Company has never experienced a work stoppage. The Company believes its relations with the employees to be amicable.

RISKS RELATED TO OUR BUSINESS

WE HAVE A HISTORY OF LOSSES. We have experienced significant operating losses and negative cash flows from operating activities during our last two fiscal years. If our sales do not improve and operating expenses are not reduced and monitored, we may incur additional significant net losses and negative cash flows from operations.

WE OPERATE IN AN INTENSIVELY COMPETITIVE FIELD. The wireless broadband data access market is highly competitive, and we may be unable to compete effectively. Our primary competitors are Sierra Wireless, Novatel Wireless and Option International. Many of our competitors or potential competitors have significantly greater financial, technical and marketing resources than we do. To survive and be competitive, we will need to continuously invest in research and development, sales and marketing, and customer support. Increased competition could result in price reduction and smaller customer orders. Our failure to compete effectively could seriously harm our business.

WE OPERATE IN A FIELD WITH RAPIDLY CHANGING TECHNOLOGY. If we are unable to predict and comply with evolving wireless standards, our ability to introduce and sell new products will be adversely affected. At the same time, if we fail to develop and introduce products on time, we may lose customers and potential product orders.

WE DEPEND ON THE DEMAND FOR WIRELESS NETWORK CAPACITY. The demand for our products is completely dependent on the demand for broadband wireless access to networks. If wireless operators do not deliver acceptable wireless service, our product sales may dramatically decline. Thus, if wireless operators experience financial or network difficulties, it will likely reduce demand for our products.

WE RELY ON A SINGLE SOURCE FOR THE MANUFACTURE OF OUR PRODUCTS. We rely on a single source to design, manufacture and supply our products, which exposes us to a number of risks and uncertainties outside our control. Due to our lack of working capital, we rely on CMotech to manufacture and deliver all our products. Any significant changes in CMotech, such as a change in ownership, operations or financial status may cause difficulties in our ability to deliver products to customers on a timely basis.

OUR PRODUCT DELIVERIES ARE SUBJECT TO LONG LEAD TIMES. Due to our financial difficulties, we are experiencing long-lead times to ship products to our customers, often in excess of 45 days. This could cause us to lose customers, who may be able to secure faster delivery times from our competitors, and require us to maintain higher levels of working capital.

ITEM 2. DESCRIPTION OF PROPERTY

The Company leases approximately 3,800 square feet office space in San Diego, California, at a monthly rent of approximately $3,981. The lease expires on June 30, 2008. Our facility is covered by appropriate level of insurance and we believe it to be suitable for its respective use and adequate for our present needs.

ITEM 3. LEGAL PROCEEDINGS

During June 2005, the Company's landlord filed a suit against the Company alleging that the Company defaulted under the lease when the Company failed to pay rent. The action was settled, with the Company agreeing to pay $9,308, to be paid in twelve equal monthly installments starting on December 6, 2005.

In addition, the Company is involved in certain legal proceedings and claims which arise in the normal course of business. Management does not believe that the outcome of these matters will have any material adverse effect on the Company's consolidated financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of the security holders during either of the two past fiscal years.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is traded on the "pink sheets" under the trading symbol "FKLT". The following table sets forth the range of high and low bid quotations per share for the Common Stock as reported during the fiscal years ending June 30, 2006 and 2005. The bid price reflects inter-dealer prices and does not include retail mark-up, markdown, or commission.

	HIGH	LOW
JUNE 30, 2005		
First Quarter	0.035	0.012
Second Quarter	0.014	0.007
Third Quarter	0.010	0.004
Fourth Quarter	0.038	0.002
JUNE 30, 2006		
First Quarter	0.016	0.007
Second Quarter	0.010	0.005
Third Quarter	0.011	0.004
Fourth Quarter	0.009	0.004

The Company has never declared or paid any dividends on its Common Stock and does not expect to declare or pay any cash dividends in the foreseeable future.

As of June 30, 2006, the Company had approximately 770 shareholders of record. Since many of the shares of the Company's Common Stock are held by brokers and other institutions on behalf of stockholders, it is impossible to estimate the total number of beneficial holders represented by these record holders.

RECENT SALES OF UNREGISTERED SECURITIES

During the three months ended June 30, 2006, the Company engaged in the following sales of unregistered securities:

- The Company issued 1,000,000 shares of Common Stock to a shareholder upon conversion of a $10,000 note payable, at a conversion price of $0.01 per share.

- The Company issued 66,000,000 shares of Common Stock to unaffiliated investors for cash at a price of $0.009 per share, for gross proceeds of $600,000. .

The Company believes that each of the foregoing stock issuances was exempt from the registration requirements of the Securities Act of 1933, as amended, by reason of Section 4(2) thereof and Regulation D thereunder.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

BUSINESS OVERVIEW

Franklin Wireless Corp. ("Franklin" or the "Company") designs, builds and markets broadband high speed data communication products, such as 3rd Generation wireless module and modems. We offer two distinct product lines: our CDMA 1xEVDO Embedded Module and USB/PC card Modem product line, and our Data Application Supporting product line. The Company's products are marketed through Original Equipment Manufacturers ("OEMs") and distributors, as well as directly to operators and end users. Our customers are located primarily in Latin America, the United States and Canada including cellular operators and government agencies.

In 2004, the market for embedded wireless modules grew at an unprecedented rate, especially in the GSM space. The extraordinary success of the GSM module companies paved the way for a successful module venture based on the CDMA technology, which has been widely adopted, and is expected to occupy more than 40% of the global wireless market share in 2006. Accordingly, the Company concentrated on the design of CDMA module and modem products, for incorporation into future products which can replace the GSM product. In addition, our shift from GSM module to CDMA Embedded Module and USB/PC Card Segment represented our best growth opportunity, since we could avoid the intense competition posed by the GSM module companies, which generally have substantially greater financial resources

During the fiscal year ended June 30, 2006, the Company was successful in obtaining and maintaining customers for CDMA products. The primary increase in sales was an increase in sales of the CDMA module and modem in Latin America, which became our major source of revenue. As a result, the Company is focusing on developing additional products for the Latin American market.

10

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts on those financial statements. Note 1 to the consolidated financial statements (included in this Annual Report on Form 10-KSB) describes the significant accounting policies and methods used in the preparation of the consolidated financial statements. On an ongoing basis, the Company evaluates its estimates including, but not limited to, those related to our allowance for doubtful accounts, and intangible assets. The Company bases its estimates on historical experience and on various other assumptions that the Company believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different conditions or if our assumptions change.

The Company believes the following critical accounting policies affect our more significant judgments and estimates used in the preparation of its financial statements:

REVENUE RECOGNITION

The Company recognizes revenue 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, the Company recognizes revenues from product sales upon shipment of the product to the customers. The Company does not allow the right of return on product sales but provides a factory warranty for one year from the shipment, which is provided by the Company's vendor. Allowance for doubtful accounts is estimated based on estimates of losses related to customer receivable balances. Estimates are developed by using standard quantitative measures based on historical losses, adjusting for current economic conditions and, in some cases, evaluating specific customer accounts for risk of loss. The establishment of reserves requires the use of judgments and assumptions regarding the potential for losses on receivable balances. Though the Company considers these balances adequate and proper, changes in economic conditions in specific markets in which the Company operates could have a material effect on reserve balances required.

CASH AND CASH EQUIVALENTS

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

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. The Company provides for depreciation using the straight-line method over the estimated useful lives as follows:

Computers and software	5 years
Machinery and equipment	5 years
Furniture and fixtures	5 years

Expenditures for maintenance and repairs are charged to operations as incurred while renewals and betterments are capitalized. Gains or losses on the sale of property and equipment are reflected in the statements of operations.

LICENSES

Licenses are stated at cost and are amortized using the straight-line method over the license periods of five years.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company, in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for Impairment on Disposal of Long-lived Assets", reviews for impairment of long-lived assets and certain identifiable intangibles whenever events or circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss would be recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. As of June 30, 2006 and 2005, the Company was not aware of any events or changes in circumstances that would indicate that the long-lived assets are impaired.

WARRANTIES

The Company does not allow the right of return on product sales but provides a factory warranty for one year from the shipment which is covered by the Company's vendor. These products are shipped directly from the vendor to the customers. As a result, the Company does not accrue any warranty expenses.

RESEARCH AND DEVELOPMENT COSTS

The Company expenses research and development costs to operations which are primarily made up of developmental activities.

ADVERTISING AND MARKETING COSTS

The Company expenses the costs of advertising and marketing as incurred. The Company incurred no advertising and marketing expenses during the years ending June 30, 2006 and 2005, respectively.

12

INCOME TAXES

The Company accounts for income taxes under the asset and liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is required when it is less likely than not that the Company will be able to realize all or a portion of its deferred tax assets.

RESULT OF OPERATIONS

The following table sets forth, for the fiscal years ended June 30, 2006, 2005 and 2004, selected consolidated statements of operations data expressed as a percentage of sales:

	2006	2005	2004
Net Sales	100.0%	100.0%	100.0%
Cost of goods sold	67.6%	68.7%	93.6%
Gross profit	32.4%	31.3%	6.4%
Operating expenses:			
Selling, general and administrative expenses	58.0%	237.7%	106.2%
Research and development	3.6%	8.0%	3.9%
Total operating expenses	61.6%	245.7%	110.1%
Loss from operations	(29.2%)	(214.4%)	(103.7%)
Other (expense) income, net	1.6%	(1.5%)	(32.4%)
Net loss before income taxes	(27.6%)	(215.9%)	(136.1%)
Provision for income taxes	0.1%	0.3%	0.1%
Net loss	(27.7%)	(216.2%)	(136.2%)

RESULTS OF OPERATIONS

YEAR ENDED JUNE 30, 2006 COMPARED TO YEAR ENDED JUNE 30, 2005

NET SALES - Net sales increased by $700,884 or 232.0%, from $302,069 for the year ended June 30, 2005 to $1,002,953 for the year ended June 30, 2006. The primary increase in sales was an increase in sales on the CDMA module and modem products in Latin America. Net sales to customers in Latin America totaled $731,265, representing 72% of net sales.

GROSS PROFIT - Gross profit increased in terms of net sales percentage as the percentage of gross profit was 32.4% for the year ended June 30, 2006, compared to 31.3% for the corresponding period of 2005. The gross profit percentage increase can be attributed to its increase in sales in the CDMA module and modem products which have higher gross profit margin compared to other products.

SELLING, GENERAL, AND ADMINISTRATIVE - Selling, general, and administrative expenses decreased by $136,240 or 19.0%, from $718,159 for the year ended June 30, 2005 to $581,919 for the year ended June 30, 2006. The decrease can be attributed to decreased engineering
expense and professional service charges.

RESEARCH AND DEVELOPMENT - Research and development expenses increased by $12,100 or 50.0%, from $24,200 for the year ended June 30, 2005 to $36,300 for the year ended June 30, 2006. The increase was mainly attributable to the design of CDMA modules and modems.

OTHER EXPENSE (INCOME), NET - Other expense (income) decreased by $21,145, or 468.4%, from net expense of $4,514 for the year ended June 30, 2005 to income of $16,631 for the year ended June 30, 2006. This is primarily due to a settlement of an account payable with a customer in an amount less than what was accrued during the year ended June 30, 2006.

YEAR ENDED JUNE 30, 2005 COMPARED TO YEAR ENDED JUNE 30, 2004

NET SALES - Net sales decreased by $1,376,199, or 82.0%, from $1,678,268 for the year ended June 30, 2004 to $302,069 for the year ended June 30, 2005. The decrease was primarily due to a significant decrease in sales of GSM products, which decreased by $1,431,176, from $1,678,268 for the year ended June 30, 2004 to $247,092 for the year ended June 30, 2005. The overall decrease for this product was attributed to the Company's decision to focus on the design of CDMA module and modem products for future products, opportunities and demands which can replace the GSM product.

GROSS PROFIT - Gross profit increased in terms of net sales percentage as the percentage of gross profit was 31.3% for the year ended June 30, 2005, compared to 6.4% for the corresponding period of 2004. The gross profit percentage increase can be attributed to its shift from being a product engineering company to a product development/marketing company. During our first year as the developer of our own mobile phone products, we spent more than the expected cost to develop and manufacture the products, including numerous re-works, re-developments, and other product related activities, all of which contributed to the low gross profit margin for the fiscal year 2004. . Selling, General, and Administrative - Selling, general, and administrative expenses decreased by $1,063,471 or 59.7%, from $1,781,630 for the year ended June 30, 2004 to $718,159 for the year ended June 30, 2005. The decrease can be attributed to decreased sales/marketing efforts, reducing engineering expense, accounting charges and cost savings resulting from reduction of the general and administrative infrastructure.

RESEARCH AND DEVELOPMENT - Research and development expenses decreased by $40,664 or 62.7%, from $64,864 for the year ended June 30, 2004 to $24,200 for the year ended June 30, 2005. The decrease was mainly attributable to the design of CDMA modules and modems, rather than GSM phone design and development.

OTHER EXPENSE, NET - Other expenses decreased by $540,011 or 99.2%, from $544,525 for the year ended June 30, 2004 to $4,514 for the year ended June 30, 2005. The decrease was due to losses on impairment of fixed assets and intangible assets of $478,904 for the year ended June 30, 2004. There were no losses on impairment of fixed assets and intangible assets for the fiscal year ended June 30, 2005.

GOING CONCERN MATTERS

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Company as a going concern. The Company incurred net losses of $277,590 and had negative cash flows from operations of $260,739 for the year ended June 30, 2006. These factors raise doubt about the Company's ability to continue as a going concern.

Recovery of the Company's assets is dependent upon future events, the outcome of which is indeterminable. The Company's attainment of profitable operations is dependent upon its obtaining adequate debt and equity financing and achieving a level of sales adequate to support the Company's cost structure. In addition, realization of a major portion of the assets in the accompanying balance sheet is dependent upon the Company's ability to meet its financing requirements and the success of its plans to sell its products. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence. Management plans to raise additional equity capital, continue to develop its products, and market the products.

LIQUIDITY AND CAPITAL RESOURCES

Our cash and cash equivalents increased by $528,845 to $568,387 as of June 30, 2006 compared to $39,542 as of June 30, 2005. The cash sources came primarily from issuance of equity securities, and to a lesser extent, collections of sales revenues. The Company has relied on sales of new shares to supplement the funding of operations for an extended period of time. The Company's working capital increased by $557,115 as the Company was able to increase its cash balance through sales of its common stock shares to investors during the year ended June 30, 2006.

Our cash and cash equivalents decreased by $169,506 to $39,542 as of June 30, 2005 compared to $209,048 as of June 30, 2004. The cash sources came primarily from issuance of equity securities, and to a lesser extent, collections of sales revenues. The Company has relied on sales of new shares to supplement the funding of operations for an extended period of time. The Company's working capital decreased by $960,944 as we continued to invest in our development and business development efforts and fund the loss incurred in 2005 and 2004.

The Company believes that its current working capital deficit of $161,416 and anticipated working capital to be generated by future operations will not be sufficient to support the Company's working capital requirements through least June 30, 2007.

OPERATING ACTIVITIES - Net cash used in operating activities amounted to $260,739 in 2006, $413,516 in 2005, and $1,675,222 in 2004. The decrease from the prior period relates mainly to lower net loss compared to the prior period. The decrease from 2004 to 2005 relates mainly to lower amounts used in research and development service by stopping the service and focusing on the research and development for the Company's own module, and write-off of fixed assets and intangible assets of $478,904, as they were deemed to be impaired as of June 30, 2004.

INVESTING ACTIVITIES - Net cash used in investing activities totaled $5,416, $4,000, and $1,829 in 2006, 2005, and 2004, respectively, consisting of capital expenditures.

FINANCING ACTIVITIES - Net cash provided by financing activities in 2006 totaled $795,000, mainly consisting of proceeds of $945,000 from the issuance of its common stock. Net cash provided by financing activities in 2005 totaled $248,010, consisting of proceeds of $218,010 from the issuance of Common Stock and additional borrowings from stockholders of $30,000. Net cash provided by financing activities in 2004 totaled $1,431,373, consisting of proceeds of $1,736,768 from the issuance of Common Stock and off-set by repayment of line of credit in the amount of $298,000.

CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

Our principal future obligations and commitments as of June 30, 2006, include the following:

LEASES

The Company leases its administrative facilities under a non-cancelable operating lease that expires on June 30, 2008 In addition to the minimum annual rental commitments, the lease provides for periodic cost of living increases in the base rent and payment by the Company of common area costs. Rent expense related to the operating lease was $24,679 and $37,104 for the years ended June 30, 2006 and 2005, respectively.

The Company also leases an automobile under an operating lease. Lease expenses related to these items were $6,564 and $8,393 during the years ended June 30, 2006 and 2005, respectively.

LITIGATION

During June 2005, the Company's landlord filed a suit against the Company alleging that the Company defaulted under the lease when the Company failed to pay rent. The action was settled, with the Company agreeing to pay $9,308, to be paid in twelve equal monthly installments starting on December 6, 2005. This balance has been accrued in the current and long-term liabilities in the balance sheet as of June 30, 2005 and accrued liabilities in the balance sheet as of June 30, 2006.

In addition, the Company is involved in certain legal proceedings and claims which arise in the normal course of business. Management does not believe that the outcome of these matters will have any material adverse effect on the Company's consolidated financial condition.

SUPPLY AND PURCHASE AGREEMENTS

In May 2005, the Company entered into a contract for low cost GSM phone and a worldwide distribution agreement with a design and manufacturing company. The agreement provides for a one-year term and may be extended on a year-to-year basis thereafter.

ITEM 7. FINANCIAL STATEMENTS

The financial statements and the supplementary financial information required by this Item and included in this report are listed in the Index to Consolidated Financial Statements beginning on page F-1.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 8A. CONTROLS AND PROCEDURES

As of the end of the fiscal year ended June 30, 2006, the Company carried out an evaluation, under the supervision and with the participation of members of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our company's disclosure controls and procedures pursuant to Rule 13a-15(b) of the U.S. Securities Exchange Act of 1934 (the "Exchange Act"). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2006, our disclosure controls and procedures, related to internal control over financial reporting and the recording of certain equity transactions, were not effective in light of the material weaknesses described below.

1. Inadequate Financial Statement Preparation and Review Procedures - We do not have adequate procedures and controls to ensure that accurate financial statements can be prepared and reviewed on a timely basis, including insufficient

   a. review and supervision within the accounting and finance departments;

   b. underlying accurate data to ensure that balances are properly summarized and posted to the general ledger; and

   c. technical accounting resources.

2. Inadequate Segregation of Duties - We do not have adequate procedures and controls in place to ensure proper segregation of duties within the accounting department. As a result, adjustments in the financial statements could occur and not be prevented or detected by our controls in a timely manner.

3. Inadequate Technical Accounting Expertise - We lacked the necessary depth of personnel with adequate technical accounting expertise to ensure the preparation of interim and annual financial statements in accordance with GAAP. This material weakness represented more than a remote likelihood that a material misstatement of our annual or interim financial statements for fiscal 2006 would not have been prevented or detected.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projection of any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting in those reporting periods

ITEM 8B. OTHER INFORMATION

Not applicable.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below are the names, ages, titles and present and past positions of the executive officers of the Company.

NAME	AGE	POSITION
OC Kim	43	President, Director, and Acting Chief Financial Officer
Gary Nelson	65	Director
David Kim	53	Director
Taejin Kim	42	Director

18

Mr. OC Kim has been a director of the Company since September 2003 and is currently serving as the President and Acting Chief Financial Officer of the Company. Prior to joining the Company, Mr. Kim was the Chief Operating Officer of Axesstel Inc., a pioneering developer of CDMA Wireless Local Loop Products. Before joining Axesstel, he was the president of the US Sales office for Kolon Data Communications Co., Ltd., one of Korea's most prominent technology conglomerates. He began his career at Lucky Goldstar (LG) Electronics. He has more than 15 years of successful experience in sales, marketing and operations management in the telecommunications and information systems industries. He earned a B.A. from Sogang University in Korea.

Mr. Gary Nelson became a director of Franklin Wireless in April 2001. He is also the co-founder and current President of Churchill Mortgage Corporation, an income property mortgage banking firm based in Los Angeles, California, which is the loan correspondent for the general and real estate separate accounts of major life insurance companies and their pension fund sources. The Churchill portfolio consists of approximately $4.5 billion in loans. In addition, Mr. Nelson is the Chairman of the Board of Directors of Churchill Mortgage of Arizona, Inc., and Churchill Real Estate, Inc. His prior experience includes computer marketing to the aerospace industry with Control Data Corporation and design engineering on the Apollo Project with North American Aviation. He holds a B.S. in Mechanical Engineering from Kansas State University and an MBA from the University of Southern California.

Mr. David Kim has been a director since September 2003. He currently serves as Chairman of Westech Korea, a Korean venture capital firm.

Dr. Taejin Kim has been a director since September 2003. He currently serves as director of iPacific Partners Inc., a Korean venture capital company.

The Board of Directors has no committees, and has not adopted a Code of Ethics. Directors do not receive compensation for serving on the Board of Directors.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires officers and directors, and persons who own more than ten percent of our equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission (the "Commission"). Officers, directors and greater than regulations to furnish the Company with copies of all forms they file pursuant to Section 16(a). Based solely on our review of the copies of such forms it received and written representations from reporting persons required to file reports under Section 16(a), to our knowledge all of the Section 16(a) filing requirements applicable to such persons with respect to fiscal 2005 were complied with.

ITEM 10. EXECUTIVE COMPENSATION

The following table sets all compensation paid or accrued by the Company during the years ended June 30, 2005 and 2006 to its Chief Executive Officer, President and Chief Operating Officer, and Chief Technology Officer. (the "Named Executive Officers")

19

	ANNUAL COMPENSATION				
NAME AND PRINCIPAL POSITION	YEAR	SALARY	BONUS	ALL OTHER COMPENSATION	NO. OF SECURITIE UNDERLYIN OPTIONS GRANTED

Hajin Jhun, CEO *	2005	$ 6,000 (1)	None	None	None
	2006	$ 6,400 (2)	None	None	None
OC Kim, President	2005	$100,000 (3)	None	None	None
	2006	$100,000 (4)	None	None	None
Peter Won, VP of	2005	$ 90,000 (5)	None	None	None
Engineering	2006	$ 90,000	None	None	None

*Mr. Jhun resigned from all positions with the Company in March 2006.

(1) $50,000 per year contracted but agreed to receive $2,000 per month until the Company is able to obtain future funding from other investors.
(2) $7,000 was deferred.
(3) $50,500 of this amount was deferred in 2005 and $35,000 was also deferred in 2004.
(4) $13,750 of this amount was deferred.
(5) $25,500 of this amount was deferred.

The Company had no outstanding employee stock options as of June 30, 2006 and 2005.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information regarding the beneficial ownership of the Company's Common Stock as of June 30, 2005 by each director and executive officer of the Company, each person known to the Company to be the beneficial owner of more than 5% of the outstanding Common Stock, and all directors and executive officers of the Company as a group. Except as otherwise indicated below, each person has sole voting and investment power with respect to the shares owned, subject to applicable community property laws.

SHARES BENEFICIALLY OWNED

NAME AND ADDRESS	NUMBER	PERCENT
OC Kim 9823 Pacific Heights Blvd. Suite J, San Diego, CA 92121	104,943,534	11.89%
Gary Nelson 9823 Pacific Heights Blvd. Suite J, San Diego, CA 92121	24,227,000	2.75%
Taejin Kim 9823 Pacific Heights Blvd. Suite J. San Diego, CA 92121	54,968,889 (1)	6.23%
David Kim 9823 Pacific Heights Blvd. Suite J. San Diego, CA 92121	88,805,746 (2)	10.07%
All directors and executive officers of the Company as a group (4 persons)	272,945,169	30.94%

(1) Consists of shares owned by iPacific Partners, of which Taejin Kim is an officer (2) Consists of shares owned by Westech Korea, of which David Kim is an officer.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In May of 2006 the Company repurchased 20,000,000 shares of Common Stock from Hajin Jhun, its former Chief Executive Officer, for cash in the amount of $100,000.

ITEM 13. EXHIBITS

No.	Description
2.1	Amended and Restated Agreement and Plan of Merger, dated July 31, 2003, between Accetio, Inc. and Franklin Telecommunications Corp. (1)
3.1	Restated Articles of Incorporation of Franklin Wireless Corp. (2)
3.2	Bylaws of Franklin Wireless Corp. (3)
10.1	Co-Development, Co-Ownership and Supply Agreement, dated January 5, 2005 between the Company and C-Motech Co., Ltd.(2)
10.2	Lease, dated March 16, 2005, between the Company and MP Sorrento Mesa, LLC (2)
10.3	First Amendment to Lease, between the Company and MP Sorrento Mesa, LLC, dated May 23, 2006 (previously filed).
10.4	Stock Repurchase Agreement, dated May 5, 2006, between the Company and Hajin Jhun (previously filed).

21

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 and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

----

(1) Incorporated by reference from Report on Form 8-K, filed on September 26, 2003

(2) Incorporated by reference from Annual Report on Form 10-KSB for the year ended June 30, 2005, filed on May 23, 2006

(3) Incorporated by reference from Amendment No. 2 to Registration Statement on Form S-3, filed on July 28, 2000

22

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table shows the fees paid or accrued for the audit and other services provided by Choi, Kim & Park, LLP for fiscal 2006 and 2005.

	FY 2006	FY 2005
Audit Fees	$25,000	$25,000
Audit-Related Fees	--	--
Tax Fees	--	--
All Other Fees	--	--
Total Fees	$25,000	$25,000

The fees set forth on the foregoing table were paid during the 2006 fiscal year, but relate to the audits of the fiscal years set forth. Audit services of Choi, Kim & Park, LLP for fiscal 2006 and 2005 consisted of the examination of the consolidated financial statements of the Company. All of the services described above were approved in advance by the Board of Directors.

23

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

Dated: March 30, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
(1) Principal Executive, Financial and Accounting Officer		
/s/ OC KIM ------------- OC Kim	President, Acting Chief Financial Officer and a Director	March 30, 2007

(3) Directors

/s/ GARY NELSON Gary Nelson	Chairman of the Board of Directors	March 30, 2007
/s/ DAVID KIM David Kim	Director	March 30, 2007
/s/ TAE JIN KIM Tae Jin Kim	Director	March 30, 2007

FRANKLIN WIRELESS CORP.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

PA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Franklin Wireless Corp.
San Diego, California

We have audited the accompanying consolidated balance sheets of Franklin Wireless Corp. and subsidiary as of June 30, 2006 and 2005 and the related consolidated statements of operations, changes in stockholders' deficit, and cash flows for each of the three years in the period ended June 30, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provided a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Franklin Wireless Corp. and subsidiary as of June 30, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2006 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 2, the Company has incurred operating losses in fiscal 2006 and 2005, negative cash flows from operations, and has limited cash and other resources to fund future operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 2. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Choi, Kim & Park, LLP
San Diego, California
September 20, 2006

FRANKLIN WIRELESS CORP.
CONSOLIDATED BALANCE SHEETS

	FISCAL YEARS
	2006
ASSETS	
Current assets:	
Cash and cash equivalents	$ 568,387
Accounts receivable	1,750
Total current assets	570,137
Property and equipment, net	12,715
Intangible assets, net	104,195
Other assets	4,452

TOTAL ASSETS	$ 691,499
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES	
Accounts payable	$ 585
Accrued liabilities	190,968
Notes payable to stockholders	540,000
Total current liabilities	731,553
Other long-term liabilities	--
Total liabilities	731,553
STOCKHOLDERS' DEFICIT:	
Common Stock, no par value, authorized 900,000,000 shares and Preferred Stock, no par value, authorized 10,000,000 shares; Common Stock issued and outstanding - 882,040,050 and 793,040,050 for 2006 and 2005, respectively, and no Preferred Stock issued for 2006 and 2005	
Additional paid-in capital	4,629,393
Stock subscription receivable	(17,395)
Accumulated deficit	(4,652,052)
Total stockholders' deficit	(40,054)
Total liabilities and stockholders' deficit	$ 691,499

See accompanying notes to consolidated financial statements.

FRANKLIN WIRELESS CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS

	FISCAL YEARS ENDED JUNE 30,		
	2006	2005	
Net sales	$ 1,002,953	$ 302,069	$
Cost of goods sold	678,155	207,638	
Gross profit	324,798	94,431	
Operating expenses:			
Research and development	36,300	24,200	
Selling, general, and administrative	581,919	718,159	
Total operating expenses	618,219	742,359	

Loss from operations	(293,421)	(647,928)	
Other income (expense):			
Interest expense	(559)	--	
Interest income	2,359	571	
Loss on impairment of fixed assets	--	--	
Loss on impairment of intangible assets	--	--	
Other income (expense), net	14,831	(5,085)	
Total other income (expense), net	16,631	(4,514)	
Net loss before income taxes	(276,790)	(652,442)	
Provision for income taxes	800	800	
Net loss	$ (277,590)	$ (653,242)	$
Basic loss per share	$ (0.00)	$ (0.00)	$
Diluted loss per share	$ (0.00)	$ (0.00)	$
Weighted average common shares outstanding - basic	817,976,717	778,040,050	
Weighted average common shares outstanding - diluted	817,976,717	778,040,050	

See accompanying notes to consolidated financial statements. .

F-4

FRANKLIN WIRELESS CORP.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

	COMMON STOCKS				
	SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	
Balance - June 30, 2003	149,395,606	$ --	$ 430,000	$(1,436,152)	$
Issuance of common stock	623,644,444	--	3,136,383	--	
Stock subscription receivables	--	--	--	--	
Net loss	--	--	--	(2,285,068)	
Balance - June 30, 2004	773,040,050	$ --	$ 3,566,383	$(3,721,220)	$
Issuance of common stock	20,000,000	--	218,010	--	
Net loss	--	--	--	(653,242)	
Balance - June 30, 2005	793,040,050	--	3,784,393	(4,374,462)	
Issuance of common stock, net of common stock repurchase	89,000,000	--	845,000	--	
Net loss	--	--	--	(277,590)	

Balance - June 30, 2006	882,040,050	$ --	$ 4,629,393	$(4,652,052)	$
	===========	=========	===========	===========	=

See accompanying notes to consolidated financial statements.

FRANKLIN WIRELESS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	2006
CASH FLOWS FROM OPERATIONS ACTIVITIES:	
Net loss	$ (277,5
Adjustments to reconcile net loss to net cash used in operating activities:	
Loss on impairment of fixed assets	
Intangible assets impairment charge	
Depreciation and amortization	7,6
Amortization of intangible assets	49,2
Increase (decrease) in cash due to change in:	
Accounts receivable	(1,7
Intangible assets	(55,5
Other assets	(2,3
Accounts payable	(17,3
Accrued liabilities	40,8
Other long-term liabilities	(3,8
Net cash used in operating activities	(260,7
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	(5,4
Net cash used in investing activities	(5,4
CASH FLOWS FROM FINANCING ACTIVITIES:	
Line of Credit	
Borrowings (Payments) from (to) stockholders	(10,0
Cash payment for common stock repurchase	(100,0
Increase in stock subscriptions receivable	
Proceeds from issuance of common stock	905,0
Net cash provided by financing activities	795,0
Net increase (decrease) in cash and cash equivalents	528,8
Cash and cash equivalents, beginning of year	39,5
Cash and cash equivalents, end of year	$ 568,3

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: Cash paid during the year for:

Interest	$	5
Income taxes	$	8
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITY:		
Common stock conversion from note payable	$	(40,0

See accompanying notes to consolidated financial statements.

FRANKLIN WIRELESS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 1 - NATURE OF OPERATIONS

Franklin Wireless Corp. ("Franklin" or the "Company") designs, builds, and markets broadband high speed data communication products such as 3G wireless module and modem. The Company offers Wireless Solution Provider/Enabler. The Company is in position of an enabler of new markets and products to technology provider. The Company is in position of a solution provider to electronic consumer product companies.

The Company's products are marketed through Original Equipment Manufacturers ("OEMs") and distributors, as well as directly to operators and end users. The Company's customers are located primarily in the United States, Canada, and South America including cellular operators and government agencies.

NOTE 2 - GOING CONCERN MATTERS

The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP"), which contemplate continuation of the Company as a going concern. The Company incurred a net loss of $277,590 and had negative cash flows from operations of $260,739 for the year ended June 30, 2006. These factors raise doubt about the Company's ability to continue as a going concern.

Recovery of the Company's assets is dependent upon future events, the outcome of which is indeterminable. The Company's attainment of profitable operations is dependent upon its obtaining adequate debt and equity financing and achieving a level of sales adequate to support the Company's cost structure. In addition, realization of a major portion of the assets in the accompanying balance sheet is dependent upon the Company's ability to meet its financing requirements and the success of its plans to sell its products. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence. Management plans to raise additional equity capital, continue to develop its products, and market the products.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of Franklin and its wholly owned subsidiary, ARG. All inter-company balances and transactions have been eliminated. The Company's subsidiary, ARG, was not in operation during the fiscal years 2006 and 2005.

SEGMENT REPORTING

The Company has two reportable segments as defined by SFAS No. 131, Disclosure About Segments of an Enterprise and Related Information. The Company's subsidiary located in South Korea, ARG, was not active during the fiscal years 2006 and 2005. Furthermore, all of its subsidiary's assets were written off during the fiscal year 2004 as the operation was shut-down during the period. As a result, the Company's consolidated financial statements only include $540,000 of debt from ARG financial statements. All of the Company's investments in subsidiary and inter-company balances have been eliminated.

ESTIMATES

The preparation of financial statements 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 revenue and expenses during the reporting periods. Actual results could differ from those estimates.

REVENUE RECOGNITION

The Company recognizes revenue 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, the Company recognizes revenues from product sales upon shipment of the product to the customers. The Company does not allow the right of return on product sales but provides a factory warranty for one year from the shipment which is covered by the Company's vendor. Allowance for doubtful accounts is estimated based on estimates of losses related to customer receivable balances. Estimates are developed by using standard quantitative measures based on historical losses, adjusting for current economic conditions and, in some cases, evaluating specific customer accounts for risk of loss. The establishment of reserves requires the use of judgment and assumptions regarding the potential for losses on receivable balances. Though the Company considers these balances adequate and proper, changes in economic conditions in specific markets in which the Company operates could have a material effect on reserve balances required.

CASH AND CASH EQUIVALENTS

For purposes of the statements of cash flows, the Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. The Company provides for depreciation using the straight-line method over the estimated useful lives as follows:

Computers and software	5 years
Machinery and equipment	5 years
Furniture and fixtures	5 years

Expenditures for maintenance and repairs are charged to operations as incurred while renewals and betterments are capitalized. Gains or losses on the sale of property and equipment are reflected in the statements of operations.

INTANGIBLE ASSETS - LICENSES

Licenses are stated at cost and are amortized using the straight-line method over the license periods of five years or life of the license.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company, in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for Impairment on Disposal of Long-lived Assets", reviews for impairment of long-lived assets and certain identifiable intangibles whenever events or circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss would be recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. As of June 30, 2006 and 2005, the Company was not aware of any events or changes in circumstances that would indicate that the long-lived assets are impaired.

WARRANTIES

The Company does not allow the right of return on product sales but provides a factory warranty for one year from the shipment which is covered by the Company's vendor. These products are shipped directly from the vendor to the customers. As a result, the Company does not accrue any warranty expenses.

RESEARCH AND DEVELOPMENT COSTS

The Company expenses research and development costs to operations which are primarily made up of developmental activities.

ADVERTISING AND MARKETING COSTS

The Company expenses the costs of advertising and marketing as incurred. The Company incurred no advertising and marketing expenses during the years ending June 30, 2006, 2005, and 2004.

INCOME TAXES

The Company accounts for income taxes under the asset and liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is required when it is less likely than not that the Company will be able to realize all or a portion of its deferred tax assets.

LOSS PER SHARE

The Company reports loss per share in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share". Basic loss per share is computed using the weighted average number of shares outstanding during the year. Diluted earnings per share include the potentially dilutive effect of outstanding common stock options and warrants which are convertible to common shares.

CONCENTRATIONS OF CREDIT RISK

The Company sells its products throughout the United States and Latin America and extends credit to its customers and performs ongoing credit evaluations of such customers. The Company evaluates its accounts receivable on a regular basis for collectibility and provides for an allowance for potential credit losses as deemed necessary.

The Company had amounts in excess of $100,000 in a single bank during the year. Amounts over $100,000 are not covered by the Federal Deposit Insurance Corporation.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The Company does not expect the adoption of any recently issued accounting pronouncements to have a significant impact on ITS results of operations, financial position or cash flows.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2006 and 2005 consisted of receivables from customers in the amounts of $1,750 and $0, respectively.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at June 30 consisted of the following:

	2006	2005
Computers and software	$ 30,640	$ 22,224
Machinery and equipment	--	3,000
Furniture and fixtures	8,713	8,713
	39,353	33,937
Less accumulated depreciation	(26,638)	(19,016)
TOTAL	$ 12,715	$ 14,921

NOTE 6 - INVESTMENT IN SUBSIDIARY

In April 2002, the Company invested $384,615 to its wholly owned subsidiary in South Korea for R&D and manufacturing support. Since August 2003 and as of June 30, 2006 and 2005, ARG has been inactive.

NOTE 7 - INTANGIBLE ASSETS

The Company purchased licenses to design phone and data communication products. Below are the details for the licenses.

	2006	2005
GSM software license	$ 200,000	$ 200,000
Text input method license	25,000	25,000
Certifications:CDG test	55,500	--
	280,500	225,000
Less accumulated depreciation	(176,305)	(127,083)
TOTAL	$ 104,195	$ 97,917

GSM software license was contracted with a supplier for the Company to design GSM phone and module and was paid in September of 2002. This software license has an approximate life of 5 years based on the life of the GSM software.

Text input method license was purchased in October of 2002 and has an approximate life of 5 years or the life of the text input license.

Certification (CDG test) was purchased during the year ended June 30, 2006 and has life of 3 years or the life of the CDG test.

NOTE 8 - OTHER ASSETS

Security deposits as of June 30, 2006 and 2005 consisted of the following:

	2006	2005
Lease deposit	$4,170	$1,824
Utility deposit	282	283
TOTAL	$4,452	$2,107

NOTE 9 - NOTES PAYABLE TO STOCKHOLDERS

Notes payable as of June 30, 2006 and 2005 consisted of the following:

	2006	2005
Non-interest bearing note	$ 540,000	$ 550,000
Promissory note	--	30,000
Promissory note	--	10,000
Total	540,000	590,000

Less current portion	(540,000)	(590,000)
TOTAL	$ --	$ --

The Company issued a non-interest bearing promissory note in the amount of $10,000 to the Company's former chief technology officer on June 30, 2004. This note was converted to the Company's common stock at $0.01 on June 27, 2006.

During June 2005, the Company issued a promissory note to its stockholder in the amount of $30,000 with no interest. The note is convertible to the Company's common stock upon issuance at the option of the holder at exercise price on the date of issuance, or $0.005. The note was converted to the Company's common stock at $0.005 on November 11, 2005.

On August 20, 2002, the Company's wholly owned subsidiary, ARG issued a promissory note to the Company's stockholder in the amount of $550,000 including 10% interest due on March 20, 2004. The Company and the stockholder agreed to change the promissory note to a convertible promissory note in the amounts of $550,000 including 10% interest during the year ended June 30, 2004. The note is convertible to the Company's common stock at the option of the holder at a conversion price equal to the fair value of the Company's common stock on the date of issuance, or $0.005. As of June 30, 2006, this note was not converted to the Company's common stock and $10,000 was paid during the year ended June 30, 2006.

In accordance with U.S. generally accepted accounting principles, all non-interest bearing notes must be discounted using the Company's average borrowing rate. The balance was deemed immaterial and did not record the discounted amount as of June 30, 2006 and 2005.

F-12

NOTE 10 - ACCRUED LIABILITIES

Accrued liabilities as of June 30, 2006 and 2005 consisted of the following:

	2006	2005
Salaries	$131,750	$111,000
Accrued professional fees	52,840	--
Other accrued liabilities	6,378	39,147
TOTAL	$190,968	$150,147

NOTE 11 - COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

The Company leases its administrative facilities under a non-cancelable operating lease that expire on June 30, 2008. In addition to the minimum annual rental commitments, the leases provide for periodic cost of living increases in the base rent and payment by the Company of common area costs. Rent expense related to the operating lease was $24,679, $37,103, and $51,467 for the years ended June 30, 2006, 2005, and 2004, respectively.

The Company also leases an automobile under an operating lease. Lease expense was $6,564, $11,620, and $28,616 during the years ended June 30, 2006, 2005, and 2004, respectively.

Future minimum lease payments under operating leases as of June 30, 2006 are as follows:

YEAR ENDING JUNE 30,	OPERATING LEASE (FACILITY)
2007	47,767
2008	50,041
	97,808

LITIGATION

During June 2005, the Company's landlord filed a suit against the Company alleging that the Company defaulted under the terms and conditions of the Company's lease agreement when the Company failed to pay for its facility lease valued at $18,221. Both parties have settled at $9,308 to be paid in twelve equal monthly installments starting on December 6, 2005. This balance is properly accrued in the current and long-term liabilities in the balance sheet as of June 30, 2005 and accrued liabilities in the balance sheet as of June 30, 2006. In addition, the Company is involved in certain legal proceedings and claims which arise in the normal course of business. Management does not believe that the outcome of these matters will have any material adverse effect on the Company's consolidated financial condition.

F-13

SUPPLY AND PURCHASE AGREEMENTS

In May 2005, the Company entered into a contract for low cost GSM phone and a worldwide distribution agreement with a design and manufacturing company. The agreement provides for a one-year term and may be extended on a year-to-year basis thereafter.

PRIVATE PLACEMENT EXEMPTIONS

The Company's private placements of securities have been issued in transactions intended to be exempt from registration under the Securities Act of 1933 pursuant to the provisions of Regulation D promulgated thereunder. These rules include factors pursuant to which one or more private placement transactions may be integrated as part of other offerings and include rules that limit the dollar amount that can be raised and the number of non-accredited investors that can participate

In the event any of the Company's private placement transactions, including private placement transactions undertaken by the Company since the transactions referred to above, were deemed to be integrated, it is possible that the exemption from the registration requirements of the Securities Act of 1933 would not be available for one or more of those offerings. In the event that one or more of such transactions are determined not to have been exempt from such registration requirements, the purchasers may have the right to seek rescission of the sales and/or seek money damages against the Company. Management believes that each of the Company's private offerings were exempt from the registration requirements of the Securities Act of 1933.

OFFICER EMPLOYMENT AGREEMENT

On April 15, 2002, the Company entered into a renewable three-year employment agreement with its president. The annual salary for the officer is $100,000. No stocks were provided as of June 30, 2006 and 2005.

NOTE 12 - EARNINGS PER SHARE

Basic earnings per share ("EPS") excludes dilution and is computed by dividing net income or loss attributable to common shareholders by the weighted-average number of common shares outstanding for the period. As of June 30, 2006 and 2005, the Company did not have any dilutive common stock shares.

NOTE 13 - STOCKHOLDERS' DEFICIT

COMMON STOCK

The Company has authorized 900,000,000 shares of common stock and 10,000,000 shares of preferred stock, of which 882,040,050 and 793,040,050 shares were outstanding as of June 30, 2006 and 2005, respectively. No shares of preferred stock were issued as of June 30, 2006 and 2005, respectively. No dividends have been declared or paid during fiscal years 2006 and 2005.

STOCK ISSUANCES & REPURCHASES

During the year ended June 30, 2006 and 2005 the Company completed the following common stock transactions:

- September 2004 - One of the Company's officers returned his shares according to the milestone contract with the Company and the Company repurchased 34,174,300 shares at his original investment, $10,000. A private investor purchased 34,174,300 shares at $118,010 from the Company. $118,010 was recorded as increase of additional paid in capital as of June 30, 2005 without any change of common stocks.

- April 2005 - The Company issued 20,000,000 shares to CEO at $0.005 per share in the gross proceeds of $100,000. The issuance price approximated market price at that time off issuance and as result, no stock compensation expense was recorded during the year ended June 30, 2005.

- November 11, 2005
  - The Company converted its $30,000 note payable to the shareholder to common stocks. As a result, the Company issued 6,000,000 shares to a stockholder at $0.005 per share. The common stock share price approximated its fair market value at the date of the conversion and a result, no compensation expense was required or booked during the year ended June 30, 2006.
  - The Company issued 36,000,000 shares to unaffiliated investors at $0.0085 per share in the amount of $305,000. The common stock share price approximated its fair market value at the date of the issuance and a result, no compensation expense was required or booked during the year ended June 30, 2006.

- May 15, 2006 - The Company purchased 20,000,000 shares of its common stock from the Company's former chief executive officer and board member, Hajin Jhun, at $0.005 per share or the price purchased by Mr. Jhun. The purchased share price approximated its fair market value at the date of the purchase and as a result, no compensation expense was required or booked during the year ended June 30, 2006.

- June 27, 2006
  - The Company issued 1,000,000 shares to a stockholder holding $10,000 note payable. These shares were converted at $0.01 per share for $10,000. The converted share price approximated its fair market value at the date of the conversion and as a result, no compensation expense was required or booked during the year ended June 30, 2006.
  - The Company issued 66,000,000 shares to unaffiliated investors at $0.009 per share in the gross proceeds of $600,000.00. The common stock share price approximated its fair market value at the date of the issuance and a result, no compensation expense was required or booked during the year ended June 30, 2006.

NOTE 14 - INCOME TAXES

No provision for income taxes for the years ended June 30, 2006 and 2005 is required, except for minimum state taxes, since the Company incurred losses during such years.

The Company accounts for income taxes under the asset and liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is required when it is less likely than not that the Company will be able to realize all or a portion of its deferred tax assets.

The significant component of the deferred tax asset (liability) at June 30, 2006 and 2005 was net operating loss carry-forward in the amount of approximately $955,000 and $378,000, respectively, based on statutory tax rate or effective tax rate of 39%. The Company had available approximately $2,449,000 unused net operating loss carry-forwards at June 30, 2006, that may be applied against future taxable income. SFAS No. 109 requires a valuation allowance to be recorded when it is more likely than not that some or all of the deferred tax assets will not be realized. At June 30, 2006 and 2005, valuation allowances for the full amount of the net deferred tax asset were established due to the uncertainties as to the amount of the taxable income that would be generated in future years. There are no other temporary differences or carry-forward tax effects that would significantly affect the Company's deferred tax asset or liability.

F-15

NOTE 15 - INACTIVE OPERATION (ARG, INC)

The Company has a wholly owned subsidiary in South Korea to utilize to design the cellular phone. During the latter part of 2003, the Company discontinued its financial support and operations of ARG but kept the business as an inactive subsidiary for future use.

NOTE 16 - SUBSEQUENT EVENTS

The Company has agreed to issue 44,000,000 shares of Common Stock at a price of $0.009 per share to an unaffiliated investment company for $400,000 in cash.

NOTE PAYABLE TO STOCKHOLDER

During June 2005, the Company issued a promissory note to a stockholder in the amount of $30,000, without interest. The note is convertible into the Company's Common Stock at the option of the holder at an exercise price of $0.005 per share. The note was converted into shares of the Company's common stock at $0.005 on November 11, 2005. The common stock share price approximated its fair market value at the date of the conversion and a result, no compensation expense was required or booked during the year ended June 30, 2006.

The Company issued a non-interest bearing promissory note in the amount of $10,000 to the Company's former chief technology officer on June 30, 2004. This note was converted to the Company's common stock at $0.01 on June 27, 2006. The common stock share price approximated its fair market value at the date of the conversion and a result, no compensation expense was required or booked during the year ended June 30, 2006.