FRANKLIN WIRELESS CORP
Form 10-Q
February 17, 2015
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2014

OR

o **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 o No x

The Registrant has 10,533,869 shares of common stock outstanding as of February 17, 2015.

FRANKLIN WIRELESS CORP.

INDEX TO CONSOLIDATED QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2014

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

	December 31, 2014 (unaudited)	June 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$11,917,127	$8,240,595
Accounts receivable	4,968,265	5,622,644
Other receivables, net	206,314	99,406
Inventories, net	1,794,273	1,967,390
Loan to an employee	–	7,128
Prepaid expenses and other current assets	125,261	191,219
Prepaid income taxes	909,588	1,056,588
Deferred tax assets, current	–	59,279
Advance payments to vendors	25,876	46,109
Total current assets	19,946,704	17,290,358
Property and equipment, net	406,790	498,465
Intangible assets, net	1,560,699	2,125,816
Deferred tax assets, non-current	1,977,603	1,981,325
Goodwill	273,285	273,285
Other assets	100,215	107,409
TOTAL ASSETS	$24,265,296	$22,276,658
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$5,563,315	$5,534,168
Advance payments from customers	1,886,533	319,888
Accrued liabilities	296,637	317,298
Marketing funds payable	43,007	374,608
Short-term borrowings	148,295	148,295
Total current liabilities	7,937,787	6,694,257
Total liabilities	7,937,787	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 December 31, 2014 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 December 31, 2014 and June 30, 2014	13,806	13,806
Additional paid-in capital	7,288,234	7,245,283
Retained earnings	13,308,711	12,601,083
Treasury stock, 3,342,286 shares as of December 31, 2014 and June 30, 2014	(4,279,479)	(4,279,479)
Accumulated other comprehensive loss	(369,244)	(243,100)
Total Parent Company stockholders' equity	15,962,028	15,337,593
Non-controlling interests	365,481	244,808
Total stockholders' equity	16,327,509	15,582,401
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$24,265,296	$22,276,658

See accompanying notes to consolidated financial statements.

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FRANKLIN WIRELESS CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Net sales	$12,494,687	$7,553,845	$26,110,764	$8,960,948
Cost of goods sold	10,006,962	5,345,315	21,307,439	6,755,610
Gross profit	2,487,725	2,208,530	4,803,325	2,205,338
Operating expenses:				
Selling, general and administrative	1,225,254	1,455,833	2,632,784	2,378,098
Research and development	740,508	700,534	1,515,903	1,379,143
Total operating expenses	1,965,762	2,156,367	4,148,687	3,757,241
Income (loss) from operations	521,963	52,163	654,638	(1,551,903)
Other income, net:				
Interest income	3,020	3,380	5,655	7,240
Other income, net	201,227	158,162	378,008	134,501
Total other income, net	204,247	161,542	383,663	141,741
Income (loss) before provision (benefit) for income taxes	726,210	213,705	1,038,301	(1,410,162)
Income tax provision (benefit)	152,000	(7,000)	210,000	(460,000)
Net income (loss)	574,210	220,705	828,301	(950,162)
Non-controlling interests in net income of subsidiary at 48.2%	(149,730)	(93,761)	(120,673)	(16,518)
Net income (loss) attributable to Parent Company	$424,480	$126,944	$707,628	$(966,680)
Basic earnings (loss) per share attributable to Parent Company stockholders	$0.04	$0.02	$0.07	$(0.09)
Diluted earnings (loss) per share attributable to Parent Company stockholders	$0.04	$0.02	$0.07	$(0.09)
Weighted average common shares outstanding – basic	10,533,869	10,374,369	10,533,869	10,374,369
Weighted average common shares outstanding – diluted	10,661,879	10,584,435	10,661,879	10,374,369
Comprehensive income (loss)				
Net income (loss)	$574,210	$220,705	$828,301	$(950,162)
Translation adjustments	(81,376)	(57,888)	(126,144)	(90,877)
Comprehensive income (loss)	492,834	162,817	702,157	(1,041,039)
Comprehensive income attributable to non-controlling interest	(149,730)	(93,761)	(120,673)	(16,518)

Comprehensive income (loss) attributable to controlling interest	$343,104	$69,056	$581,484	$(1,057,557)

See accompanying notes to consolidated financial statements.

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FRANKLIN WIRELESS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended December 31, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$828,301	$(950,162)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	121,318	126,610
Amortization of intangible assets	653,510	610,932
Deferred tax (benefit)	63,001	(460,000)
Share-based compensation	42,951	130,532
Gain on forgiven debt	(40,664)	–
Gain on debt extinguishment	(331,601)	(130,054)
Increase (decrease) in cash due to change in:		
Accounts receivable	547,471	1,488,139
Inventories	173,117	(297,207)
Prepaid expenses and other current assets	65,958	(142,135)
Prepaid income taxes	147,000	(88,181)
Advance payments to vendors	20,233	45,744
Other assets	7,194	(9,621)
Accounts payable	69,811	141,009
Advance payments from customers	1,566,645	156,619
Accrued liabilities	(20,661)	(235,714)
Net cash provided by operating activities	3,913,584	386,511
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(29,643)	(79,567)
Payments for capitalized development costs	(81,591)	(521,068)
Purchases of intangible assets	(6,802)	(27,743)
Receipt of loan repayments from an employee	7,128	–
Receipt of loan repayments from third party	–	95,428
Net cash used in investing activities	(110,908)	(532,950)
Effect of foreign currency translation	(126,144)	(90,877)
Net increase (decrease) in cash and cash equivalents	3,676,532	(237,316)
Cash and cash equivalents, beginning of period	8,240,595	10,431,474
Cash and cash equivalents, end of period	$11,917,127	$10,194,158

Supplemental disclosure of cash flow information:

Cash paid during the periods for:

Interest	$4,869	$6,402
Income taxes	$–	$–

See accompanying notes to unaudited consolidated financial statements.

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 engaged in the design, manufacture and sale of broadband high speed wireless data communication products such as third generation ("3G") and fourth generation ("4G") wireless modules and modems. We focus primarily on wireless broadband Universal Serial Bus ("USB") modems, which provide a flexible way for consumers to connect to wireless broadband networks from laptop or desktop computers. Our broadband wireless data communication products are positioned at the convergence of wireless communications, mobile computing and the Internet, each of which we believe represents a growing market.

Our wireless products are based on Evolution Data Optimized technology ("EV-DO technology") of Code Division Multiple Access ("CDMA"), High-Speed Packet Access ("HSPA") technology of Wideband Code Division Multiple Access ("WCDMA"), Worldwide Interoperability for Microwave Access ("WiMAX") based on the IEEE 802.16 standard and Long Term Evolution (LTE) which enable end users to send and receive email with large file attachments, play interactive games, receive, send and download high resolution pictures, videos and music content.

We market our products 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 December 31, 2014 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 December 31, 2014, the non-controlling interest was $365,481, which represents a $120,673 increase from $244,808 as of June 30, 2014. The increase was due to the net income of subsidiary of $250,156 for the six months ended December 31, 2014, 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 December 31,		Six Months Ended December 31,	
Net sales:	2014	2013	2014	2013
United States	$8,816,503	$4,002,728	$19,725,646	$5,082,241
Caribbean and South America	1,257,352	1,836,500	1,415,052	1,839,080
Europe, the Middle East and Africa ("EMEA")	1,357,015	461,521	1,363,398	760,137
Asia	1,063,817	1,253,096	3,606,668	1,279,490
Totals	$12,494,687	$7,553,845	$26,110,764	$8,960,948

Long-lived assets, net (property and equipment and intangible assets):	December 31, 2014		June 30, 2014	
United States	$	1,252,026	$	1,786,910
Asia		715,463		837,371
Totals	$	1,967,489	$	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 December 31, 2014 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 December 31, 2014 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 six months ended December 31, 2014, we incurred $38,031 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 $740,508 and $700,534 for the three months ended December 31, 2014 and 2013, respectively, and $1,515,903 and $1,379,143 for the six months ended December 31, 2014 and 2013, 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 $322,838 and $112,026 for the three months ended December 31, 2014 and 2013, respectively, and $675,578 and $133,162 for the six months ended December 31, 2014 and 2013, 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 December 31, 2014 we have recorded an inventory reserve in the amount of $60,000 for inventory that we have identified as obsolete or slow-moving.

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 ending December 31, 2014 and June 30, 2014.

The definite lived intangible assets consisted of the following as of December 31, 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	–	281,714	281,714	–
Complete technology	3 years	0.5	361,249	331,157	30,092
Complete technology	3 years	0.8	174,009	130,506	43,503
Complete technology	3 years	1.0	909,962	581,365	328,597
Complete technology	3 years	2.3	65,000	16,250	48,750
Supply and development agreement	8 years	2.8	1,121,000	735,656	385,344

Technology in progress	Not Applicable	–	–	–	–
Software	5 years	1.6	196,795	136,666	60,129
Patents	10 years	7.8	53,220	883	52,337
Certifications and licenses	3 years	1.2	1,745,662	1,133,715	611,947
Total as of December 31, 2014			$6,916,294	$ 5,355,595	$1,560,699

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

Definite lived intangible assets:	Expected Life	Average Remaining life	Accumulated Amortization	Gross Intangible Assets	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	1.4 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 December 31, 2014 and 2013 was $321,280 and $312,630, respectively, and during the six months ended December 31, 2014 and 2013 was $653,510 and $610,932, 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 December 31, 2014, 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 position. 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 December 31, 2014, we have no material unrecognized tax benefits. We recorded an income tax provision of $152,000 and $210,000 for the three and six months ended December 31, 2014, respectively, and a decrease in prepaid income tax assets of $109,312 and $147,000 for the three and six months ended December 31, 2014, respectively.

Concentrations of Credit Risk

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 six months ended December 31, 2014, sales to our two largest customers accounted for 63% and 12% of our consolidated net sales and 61% and 11% of our accounts receivable balance as of December 31, 2014. In the same period in 2013, sales to our five largest customers accounted for 21%, 18%, 14%, 13% and 12% of our consolidated net sales and 0%, 42%, 21%, 5% and 27% of our accounts receivable balance as of December 31, 2013. No other customers accounted for more than ten percent of total net sales for the six months ended December 31, 2014 and 2013.

For the six months ended December 31, 2014, we purchased the majority of our wireless data products from two manufacturing companies 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 six months ended December 31, 2014, we purchased wireless data products from two suppliers in the amount of $16,506,938, or 81% of total purchases, and had related accounts payable of $4,162,219 as of December 31, 2014. For the six months ended December 31, 2013, we purchased wireless data products from two suppliers in the amount of $5,010,027, or 77% of total purchases, and had related accounts payable of $2,364,079 as of December 31, 2013.

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:

	December 31, 2014	June 30, 2014
Machinery and facility	$289,664	$289,664
Office equipment	360,630	356,932
Molds	735,116	714,356
Vehicle	9,843	9,843
Construction in progress	42,651	37,466
	1,437,904	1,408,261
Less accumulated depreciation	(1,031,114)	(909,796)
Total	$406,790	$498,465

Depreciation expense associated with property and equipment was $57,264 and $64,086 for the three months ended December 31, 2014 and 2013, respectively, and $121,318 and $126,610 for the six months ended December 31, 2014 and 2013, respectively.

NOTE 5 – ACCRUED LIABILITIES

Accrued liabilities consisted of the following as of:

	December 31, 2014	June 30, 2014
Accrued salaries, severance	$156,112	$198,061
Accrued salaries, payroll deductions owed to government entities	9,823	9,381
Accrued vacation	78,521	74,656
Payroll taxes	39,920	5,522
Other accrued liabilities	12,261	29,678
Total	$296,637	$317,298

NOTE 6 – SHORT-TERM BORROWINGS FROM BANKS

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

	December 31, 2014	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 2015 (interest rate of 10.55% per annum as extended)	$148,295	$148,295

The short-term borrowings from banks of $148,295 as of December 31, 2014 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 six months ended December 31, 2013, we were in a net loss position and have excluded 1,078,170 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 December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Net income (loss) attributable to Parent Company	$424,480	$126,944	$707,628	$(966,680)
Weighted-average shares of common stock outstanding:				
Basic shares outstanding	10,533,869	10,374,369	10,533,869	10,374,369
Dilutive effect of common stock equivalents arising from stock options	128,010	210,066	128,010	–
Diluted shares outstanding	10,661,879	10,584,435	10,661,879	10,374,369
Basic earnings (loss) per share	$0.04	$0.02	$0.07	$(0.09)
Diluted earnings (loss) per share	$0.04	$0.02	$0.07	$(0.09)

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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 December 31, 2014 and 2013 and $99,456 for the six months ended December 31, 2014 and 2013. 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 December 31, 2014 and 2013 and approximately $48,000 for the six months ended December 31, 2014 and 2013. 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 six months ended December 31, 2013, we leased an additional corporate housing facility whose lease was terminated in April 2014. Rent expense related to these operating leases was $2,597 and $5,488 for the three months ended December 31, 2014 and 2013, respectively, and $5,380 and $10,932 for the six months ended December 31, 2014 and 2013, 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 has not been 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, and we are unable to determine whether or not this repurchase will take place. We have been advised that there are two individuals 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 is being disputed by C-Motech. It is our understanding that this matter is currently being adjudicated in U.S. and Korean courts. 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 December 31, 2014, C-Motech owns 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.

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. 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 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.

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 December 31, 2014, this legal proceeding is pending, but we do not believe this action will have a material effect on the Company.

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.

On September 16, 2011, the Board of Directors approved extending the 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 for an additional three years. Following this approval, the Change of Control Agreement with Mr. Kim will expire on September 21, 2015 and the Change of Control Agreements with Messrs. Lee and Won will expire on September 21, 2014. On September 25, 2014, the Board of Directors approved extending the terms of the Change of Control Agreements for Messrs. Kim and Lee to 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 six months ended December 31, 2014 was ($38,654) and $42,951. The expense credit for the three months ended December 31, 2014, resulted from the reversal of expenses booked in prior periods for stock options for a small number of employees that were cancelled. This amount increased operating income and income before income taxes by the same amount by decreasing compensation expense recognized in selling and administrative expense. The $42,951 in compensation expense for the six months ended December 31, 2014, decreased operating income and income before taxes by the same amount by increasing compensation expense recognized in selling and administrative expense. The recognized tax benefit related to the compensation expense for the six months ended December 31, 2014 was approximately $12,714.

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 December 31, 2014	850,337	$ 1.24	4.86	$ 183,033
Exercisable as of December 31, 2014	770,332	$ 1.23	4.59	$ 174,233

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based upon the Company's closing stock price of $1.45 as of December 31, 2014, 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 December 31, 2014 in the amount of 850,337 shares was $1.15 per share.

As of December 31, 2014, there was $42,533 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 0.66 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 engaged in the design, manufacture and sale of broadband high speed wireless data communication products such as third generation (“3G”) and fourth generation (“4G”) wireless modules and modems. We focus primarily on wireless broadband Universal Serial Bus (“USB”) modems, which provide a flexible way for consumers to connect to wireless broadband networks from laptop or desktop computers. Our broadband wireless data communication products are positioned at the convergence of wireless communications, mobile computing and the Internet, each of which we believe represents a growing market.

Our wireless products are based on Evolution Data Optimized technology ("EV-DO technology") of Code Division Multiple Access ("CDMA"), High-Speed Packet Access (“HSPA”) technology of Wideband Code Division Multiple Access (“WCDMA”), Worldwide Interoperability for Microwave Access (“WiMAX”) based on the IEEE 802.16 standard and Long Term Evolution (LTE) which enable end users to send and receive email with large file attachments, play interactive games, receive, send and download high resolution pictures, videos and music content.

We market our products 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, EMEA and Asia. Our products are certified by Sprint, C-Spire Wireless and other wireless operators located in the United States and also by wireless operators located in Caribbean and South American countries.

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 December 31, 2014.

RESULTS OF OPERATIONS

The following table sets forth, for the three and six months ended December 31, 2014 and 2013, our statements of operations including data expressed as a percentage of sales:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	80.1 %	70.8 %	81.6 %	75.4 %
Gross profit	19.9 %	29.2 %	18.4 %	24.6 %
Operating expenses	15.7 %	28.5 %	15.9 %	41.9 %
Income (loss) from operations	4.2 %	0.7 %	2.5 %	(17.3 %)
Other income, net	1.6 %	2.1 %	1.5 %	1.6 %
Net income (loss) before income taxes	5.8 %	2.8 %	4.0 %	(15.7 %)
Income tax provision (benefit)	1.2 %	(0.1 %)	0.8 %	(5.1 %)
Net income (loss)	4.6 %	2.9 %	3.2 %	(10.6 %)
Non-controlling interest in net income of subsidiary	(1.2 %)	(1.2 %)	(0.5 %)	(0.2 %)
Net income (loss) attributable to Parent Company stockholders	3.4 %	1.7 %	2.7 %	(10.8 %)

THREE MONTHS ENDED DECEMBER 31, 2014 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 2013

NET SALES - Net sales increased by $4,940,842, or 65.4%, to $12,494,687 for the three months ended December 31, 2014 from $7,553,845 for the corresponding period of 2013. For the three months ended December 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 $1,257,352 (10.0% of net sales), $8,816,503 (70.6% of net sales), $1,357,015 (10.9% of net sales) and $1,063,817 (8.5% of net sales), respectively. For the three months ended December 31, 2013, 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 $1,836,500 (24.3% of net sales), $4,002,728 (53.0% of net sales), $461,521 (6.1% of net sales) and $1,253,096 (16.6% of net sales), respectively.

Net sales in the South American and Caribbean regions decreased by $579,148, or 31.5%, to $1,257,352 for the three months ended December 31, 2014 from $1,836,500 for the corresponding period of 2013. 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 $4,813,775, or 120.3%, to $8,816,503 for the three months ended December 31, 2014 from $4,002,728 for the corresponding period of 2013. 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 decreases in net sales due to timing of orders placed by one customer, and another customer who did not make any repeat purchases during the second quarter of fiscal 2015. Net sales in EMEA increased by $895,494, or 194.0%, to $1,357,015 for the three months ended December 31, 2014 from $461,521 for the corresponding period of 2013. The increase in net sales was due to timing of orders placed by a carrier customer in Africa. Net sales in Asia decreased by $189,279, or 15.1%, to $1,063,817 for the three months ended December 31, 2014 from $1,253,096 for the corresponding period of 2013. 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 $279,195, or 12.6%, to $2,487,725 for the three months ended December 31, 2014 from $2,208,530 for the corresponding period of 2013. 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 19.9% for the three months ended December 31, 2014 compared to 29.2% for the corresponding period of 2013. The decrease 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 decreased by $190,605, or 8.8%, to $1,965,762 for the three months ended December 31, 2014 from $2,156,367 for the corresponding period of 2013. The decrease was primarily due to lower commissions paid to third parties as well as lower share-based compensation expense, which were partially offset by higher shipping and handling expenses resulting from the volume increase in product shipments and higher research and development costs due to increased headcount.

OTHER INCOME, NET - Other income, net increased by $42,705, or 26.4%, to $204,247 for the three months ended December 31, 2014 from $161,542 for the corresponding period of 2013. The increase 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 December 31, 2014 and 2013.

SIX MONTHS ENDED DECEMBER 31, 2014 COMPARED TO SIX MONTHS ENDED DECEMBER 31, 2013

NET SALES - Net sales increased by $17,149,816 or 191.4%, to $26,110,764 for the six months ended December 31, 2014 from $8,960,948 for the corresponding period of 2013. For the six months ended December 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 $1,415,052 (5.4% of net sales), $19,725,646 (75.6% of net sales), $1,363,398 (5.2% of net sales) and $3,606,668 (13.8% of net sales), respectively. For the six months ended December 31, 2013, 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 $1,839,080 (20.5% of net sales), $5,082,241 (56.7% of net sales), $760,137 (8.5% of net sales) and $1,279,490 (14.3% of net sales), respectively.

Net sales in the South American and Caribbean regions decreased by $424,028, or 23.1%, to $1,415,052 for the six months ended December 31, 2014 from $1,839,080 for the corresponding period of 2013. 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 $14,643,405, or 288.1%, to $19,725,646 for the six months ended December 31, 2014 from $5,082,241 for the corresponding period of 2013. 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 decreases in net sales due to a customer who did not make any repeat purchases during six months ending December 31, 2014. Net sales in EMEA increased by $603,261, or 79.4%, to $1,363,398 for the six months ended December 31, 2014 from $760,137 for the corresponding period of 2013. The increase in net sales was due to timing of orders placed by a carrier customer in Africa. Net sales in Asia increased by $2,327,178, or 181.9%, to $3,606,668 for the six months ended December 31, 2014 from $1,279,490 for the corresponding period of 2013. The increase in net sales was primarily due to higher product and component sales generated by FTI, which typically vary from period to period.

GROSS PROFIT - Gross profit increased by $2,597,987, or 117.8%, to $4,803,325 for the six months ended December 31, 2014 from $2,205,338 for the corresponding period of 2013. 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 six months ended December 31, 2014 compared to 24.6% for the corresponding period of 2013. The decrease 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 $391,446, or 10.4%, to $4,148,687 for the six months ended December 31, 2014 from $3,757,241 for the corresponding period of 2013. The increase was primarily due to higher shipping and handling expenses resulting from the volume increase in product shipments as well as higher research and development costs due to increased headcount, which were partially offset by lower commissions paid to third parties as well as lower share-based compensation expense.

OTHER INCOME, NET - Other income, net increased by $241,922, or 170.7%, to $383,663 for the six months ended December 31, 2014 from $141,741 for the corresponding period of 2013. The increase 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 six months ended December 31, 2014 and 2013.

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 December 31, 2015. 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 December 31, 2014 consisted of cash and cash equivalents of $11,917,127. We believe we have sufficient available capital to cover our existing operations and obligations through at least December 31, 2015. 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 six months ended December 31, 2014 and 2013 was $3,913,584 and $386,511, respectively.

The $3,913,584 in net cash provided by operating activities for the six months ended December 31, 2014 was primarily due to the increase in advance payments from customers and the decrease in accounts receivable of $1,566,645 and $547,471, respectively, as well as our operating results (net income adjusted for depreciation and other non-cash charges).

The $386,511 in net cash provided by operating activities for the six months ended December 31, 2013 was primarily due to the decrease in accounts receivable of $1,488,139, which was partially offset by the increases in inventory and prepaid expenses of $297,207 and $142,135, respectively, the decrease in accrued liabilities of $235,714 as well as our operating results (net income adjusted for depreciation and other non-cash charges).

INVESTING ACTIVITIES - Net cash used in investing activities for the six months ended December 31, 2014 and 2013 was $110,908 and $532,950, respectively.

The $110,908 in net cash used in investing activities for the six months ended December 31, 2014 was primarily due to the payments for capitalized product development costs of $81,591. 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 $532,950 in net cash used in investing activities for the six months ended December 31, 2013 was primarily due to the payments for capitalized product development costs of $521,068, which was partially offset by the repayment of a loan from a third party of $95,428.

FINANCING ACTIVITIES - There were no financing activities for the six months ended December 31, 2014 and 2013.

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 December 31, 2014 and 2013 and $99,456 for the six months ended December 31, 2014 and 2013. 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 December 31, 2014 and 2013 and approximately $48,000 for the six months ended December 31, 2014 and 2013. 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 six months ended December 31, 2013, we leased an additional corporate housing facility whose lease was terminated in April 2014. Rent expense related to these operating leases was $2,597 and $5,488 for the three months ended December 31, 2014 and 2013, respectively, and $5,380 and $10,932 for the six months ended December 31, 2014 and 2013, 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. 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 December 31, 2014 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 six months ended December 31, 2014, 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: February 17, 2015