

FRANKLIN WIRELESS CORP  
Form 10-Q  
February 16, 2016  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_ .

Commission file number: 001-14891

FRANKLIN WIRELESS CORP.

(Exact name of Registrant as specified in its charter)

Nevada

95-3733534

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(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

**9707 Waples Street**

**92121**

**Suite 150**

(Zip code)

**San Diego, California**

(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  No

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  No

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  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

The Registrant has 10,403,869 shares of common stock outstanding as of February 16, 2016.

**FRANKLIN WIRELESS CORP.**

**FORM 10-Q**

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

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## 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 these 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, 2015. 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**

	<b>December 31, 2015</b>	<b>June 30, 2015</b>
	<b>(unaudited)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 14,657,624	\$ 11,822,620
Accounts receivable	14,945,041	5,464,182
Other receivables, net	166,265	143,384
Inventories, net	4,572,075	2,281,667
Prepaid expenses and other current assets	13,601	60,339
Prepaid income taxes	–	1,055,788
Deferred tax assets, current	206,902	206,902
Advance payments to vendors	118,806	62,321
Total current assets	34,680,314	21,097,203
Property and equipment, net	256,869	314,492
Intangible assets, net	1,339,193	1,042,281
Deferred tax assets, non-current	1,768,588	1,860,347
Goodwill	273,285	273,285
Other assets	133,912	129,859
<b>TOTAL ASSETS</b>	<b>\$38,452,161</b>	<b>\$24,717,467</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$20,648,002	\$7,362,075
Advance payments from customers	87,002	693,317
Accrued liabilities	457,961	238,619
Income tax payable	91,744	–
Short-term borrowings	148,295	148,295
Total current liabilities	21,433,004	8,442,306
Total liabilities	21,433,004	8,442,306
Commitments and contingencies (Note 8)		

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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, 2015 and June 30, 2015

– –

Common stock, par value \$0.001 per share, authorized 50,000,000 shares;

10,403,869 and 10,533,869 shares issued and outstanding as of December 31, 2015 and

13,806 13,806

June 30, 2015, respectively

Additional paid-in capital

7,280,767 7,305,767

Retained earnings

13,996,257 13,361,091

Treasury stock, 3,472,286 and 3,342,286 shares as of December 31, 2015 and June 30, 2015, respectively

(4,513,479 ) (4,279,479 )

Accumulated other comprehensive loss

(695,270 ) (664,722 )

Total Parent Company stockholders' equity

16,082,081 15,736,463

Non-controlling interests

937,076 538,698

Total stockholders' equity

17,019,157 16,275,161

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

\$38,452,161 \$24,717,467

See accompanying notes to consolidated financial statements.

**FRANKLIN WIRELESS CORP.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

	Three Months Ended December 31,		Six Months Ended December 31,	
	2015	2014	2015	2014
Net sales	\$20,163,481	\$12,494,687	\$32,111,947	\$26,110,764
Cost of goods sold	17,000,575	10,006,962	26,986,034	21,307,439
Gross profit	3,162,906	2,487,725	5,125,913	4,803,325
Operating expenses:				
Selling, general and administrative	1,256,806	1,225,254	2,411,682	2,632,784
Research and development	793,609	740,508	1,516,178	1,515,903
Total operating expenses	2,050,415	1,965,762	3,927,860	4,148,687
Income from operations	1,112,491	521,963	1,198,053	654,638
Other income (loss), net:				
Interest income	3,431	3,020	5,708	5,655
Other income (loss), net	25,062	201,227	(20,228 )	378,008
Total other income (loss), net	28,493	204,247	(14,520 )	383,663
Income before provision for income taxes	1,140,984	726,210	1,183,533	1,038,301
Income tax provision	144,924	152,000	149,989	210,000
Net income	996,060	574,210	1,033,544	828,301
Non-controlling interests in net income of subsidiary at 48.2%	(378,841 )	(149,730 )	(398,378 )	(120,673 )
Net income attributable to Parent Company	\$617,219	\$424,480	\$635,166	\$707,628
Basic earnings per share attributable to Parent Company stockholders	\$0.06	\$0.04	\$0.06	\$0.07
Diluted earnings per share attributable to Parent Company stockholders	\$0.06	\$0.04	\$0.06	\$0.07
Weighted average common shares outstanding – basic	10,511,012	10,533,869	10,522,503	10,533,869
Weighted average common shares outstanding – diluted	10,678,039	10,661,879	10,689,530	10,661,879
Comprehensive income				
Net income	\$996,060	\$574,210	\$1,033,544	\$828,301
Translation adjustments	1,314	(81,376 )	(30,548 )	(126,144 )
Comprehensive income	997,374	492,834	1,002,996	702,157
Comprehensive income attributable to non-controlling interest	(378,841 )	(149,730 )	(398,378 )	(120,673 )
Comprehensive income attributable to controlling interest	\$618,533	\$343,104	\$604,618	\$581,484



See accompanying notes to consolidated financial statements.

**FRANKLIN WIRELESS CORP.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	<b>Six Months Ended</b>	
	<b>December 31,</b>	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 1,033,544	\$ 828,301
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	99,347	121,318
Amortization of intangible assets	484,047	653,510
Deferred tax	91,759	63,001
Share-based compensation	(25,000 )	42,951
Gain on forgiven debt	–	(40,664 )
Gain on debt extinguishment	–	(331,601 )
Increase (decrease) in cash due to change in:		
Accounts receivable	(9,503,740 )	547,471
Inventories	(2,290,408 )	173,117
Prepaid expenses and other current assets	46,738	65,958
Prepaid income taxes	1,055,788	147,000
Advance payments to vendors	(56,484 )	20,233
Other assets	(4,053 )	7,194
Accounts payable	13,285,927	69,811
Advance payments from customers	(606,315 )	1,566,645
Accrued liabilities	219,341	(20,661 )
Income tax payable	91,744	–
Net cash provided by operating activities	3,922,235	3,913,584
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(41,724 )	(29,643 )
Payments for capitalized development costs	(603,577 )	(81,591 )
Purchases of intangible assets	(177,382 )	(6,802 )
Receipt of loan repayments from an employee	–	7,128
Net cash used in investing activities	(822,683 )	(110,908 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repurchase of common stock	(234,000 )	–
Net cash used in financing activities	(234,000 )	–
Effect of foreign currency translation	(30,548 )	(126,144 )
Net increase in cash and cash equivalents	2,835,004	3,676,532
Cash and cash equivalents, beginning of period	11,822,620	8,240,595

Cash and cash equivalents, end of period	\$ 14,657,624	\$ 11,917,127
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**Supplemental disclosure of cash flow information:**

Cash paid (received) during the periods for:

Interest	\$-	\$4,869
Income taxes	\$(1,090,181 )	\$-

See accompanying notes to 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, 2015 included in the Company’s Form 10-K filed on September 28, 2015. The operating results or cash flows for the interim periods presented herein are not necessarily indicative of the results to be expected for any other interim period or the full year.

**NOTE 2 – BUSINESS OVERVIEW**

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

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

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

### **NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and a subsidiary with a majority voting interest of 51.8% (48.2% is owned by non-controlling interests) as of December 31, 2015 and June 30, 2015. 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 the subsidiary applicable to non-controlling interests.

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

As of December 31, 2015, the non-controlling interest was \$937,076, which represents a \$398,378 increase from \$538,698 as of June 30, 2015. The increase was due to the net income of subsidiary of \$825,828 for the six months ended December 31, 2015, of which 48.2% was attributable to the non-controlling interests.

#### **Segment Reporting**

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

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

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
Net sales:	2015	2014	2015	2014
United States	\$15,360,582	\$8,816,503	\$25,470,917	\$19,725,646
Caribbean and South America	7,000	1,257,352	100,000	1,415,052
Europe, the Middle East and Africa ("EMEA")	4,743,238	1,357,015	6,485,441	1,363,398
Asia	52,661	1,063,817	55,589	3,606,668
Totals	\$20,163,481	\$12,494,687	\$32,111,947	\$26,110,764

Long-lived  
assets, net

(property and  
equipment and  
intangible assets):

	December 31, 2015	June 30, 2015
United States	\$ 1,139,870	\$ 785,144
Asia	456,192	571,629
Totals	\$ 1,596,062	\$ 1,356,773

### 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 management believes 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, 2015 and June 30, 2015.

### **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.

