FRANKLIN WIRELESS CORP
Form 10QSB
February 08, 2007

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

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: December 31, 2006

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from ____________ to _____________

Commission file number 0-11616

FRANKLIN WIRELESS CORP.

(Exact name of small business issuer as specified 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)

(858) 623-0000

(Issuer's Telephone Number)

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 (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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]

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

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

| TITLE OF EACH CLASS OF COMMON STOCK | OUTSTANDING AT February 1, 2007 |
|---|---|
| Common Stock, no par value | 897,040,050 |

Transitional Small Business Disclosure format (Check one): YES [ ] NO [X]

FRANKLIN WIRELESS CORP.
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FRANKLIN WIRELESS CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | THREE MONTHS ENDED DECEMBER 31, | | SIX MONT DECEM |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Net sales | $ 1,800,622 | $ 80,500 | $ 2,770,150 |
| Cost of goods sold | 1,318,750 | 42,700 | 1,994,600 |

| | | | |
|---|---|---|---|
| Gross profit | 481,872 | 37,800 | 775,550 |
| Operating expenses: | | | |
| Selling, general, and administrative | 275,450 | 181,638 | 474,714 |
| Research and development | - | - | - |
| Total operating expenses | 275,450 | 181,638 | 474,714 |
| Income (Loss) from operations | 206,422 | (143,838) | 300,836 |
| Other income (expense): | | | |
| Interest income | 6,944 | 245 | 12,229 |
| Other income | 293 | 14,925 | 318 |
| Other expenses | - | (356) | - |
| Total other income (expense), net | 7,237 | 14,814 | 12,547 |
| Net income (loss) before income taxes | 213,659 | (129,024) | 313,383 |
| Provision for income taxes | - | 800 | 800 |
| Net income (loss) | $ 213,659 | $ (129,824) | $ 312,583 |
| Basic earnings (loss) per share | $ 0.0002 | $ (0.0002) | $ 0.0004 |
| Diluted earnings (loss) per share | $ 0.0002 | $ (0.0002) | $ 0.0004 |
| Weighted average common shares outstanding - basic | 894,237,852 | 816,116,973 | 888,105,624 |
| Weighted average common shares outstanding - diluted | 894,237,852 | 816,116,973 | 888,105,624 |

See accompanying notes to unaudited consolidated financial statements.



FRANKLIN WIRELESS CORP.
CONSOLIDATED BALANCE SHEETS

| | (UNAUDITED) DECEMBER 31, 2006 | JU |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,014,689 | $ |
| Inventory | 307,670 | |
| Accounts receivable | 114,135 | |

| | | |
|---|---|---|
| Total current assets | 1,436,494 | |
| Property and equipment, net | 12,444 | |
| Intangible assets, net | 118,617 | |
| Other assets | 4,452 | |
| TOTAL ASSETS | $ 1,572,007 | $ |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 213,240 | $ |
| Accrued liabilities | 146,240 | |
| Other current liability | 263,636 | |
| Notes payable to stockholders, current portion | 540,000 | |
| Total current liabilities | 1,163,116 | |
| STOCKHOLDERS' EQUITY | | |
| 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 - 897,040,050 and 882,040,050 as of December 31, 2006 and June 30, 2006, respectively, and no Preferred stock issued and outstanding | - | |
| Additional paid-in capital | 4,765,756 | 4 |
| Stock subscription receivable | (17,394) | |
| Accumulated deficit | (4,339,471) | (4 |
| Total stockholders' equity (deficit) | 408,891 | |
| Total liabilities and stockholders' equity | $ 1,572,007 | $ |

See accompanying notes to unaudited consolidated financial statements.



FRANKLIN WIRELESS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | SIX MONT DECEMB |
|---|---|
| | 2006 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Net Income (loss) | $ 312,583 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | |
| Depreciation | 2,844 |
| Amortization of intangible assets | 39,358 |
| Increase (decrease) in cash due to change in: | |
| Accounts receivable | (112,385) |

| | |
|---|---|
| Inventory | (307,670) |
| Accounts payable | 212,654 |
| Accrued liabilities | (44,729) |
| Net cash provided (used) by operating activities | 102,655 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Purchases of property and equipment | (2,573) |
| Purchases of intangible assets | (53,780) |
| Net cash used in investing activities | (56,353) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | |
| Payment received for future stock issuance | 263,636 |
| Proceeds from issuance of common stock | 136,364 |
| Net cash provided by financing activities | 400,000 |
| Net increase in cash and cash equivalents | 446,302 |
| Cash and cash equivalents, beginning of period | 568,387 |
| Cash and cash equivalents, end of period | $ 1,014,689 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | |
| Cash paid during the year for: | |
| Interest | $ - |
| Income taxes | $ - |

See accompanying notes to unaudited consolidated financial statements.



FRANKLIN WIRELESS CORP.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF OPERATIONS

Franklin Wireless Corp. ("Franklin" or the "Company") designs, builds, and markets broadband high speed data communication products such as 3rd generation ("3G") 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 In addition, service for its technology is provided to vertical application 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, South America and parts of Europe in a wide range of industries including cellular operators, government, PC maker, and application integrator. In summary, the Company's products are marketed to cellular operators for end-users as well as computer/handheld computing industry, automotive industry, telemetry, other vertical markets.

NOTE 2 - BASIS OF PRESENTATION

The consolidated balance sheet is unaudited as of December 31, 2006 and audited as of June 30, 2006. The consolidated statements of income are unaudited for the three months and six months ended December 31, 2006 and 2005, and the consolidated statements of cash flows are unaudited for the six months ended December 31, 2006 and 2005. The consolidated financial statements include the accounts of Franklin and ARG, after eliminating inter-company balances and transactions. The interim financial statements reflect all adjustments, consisting only of normal recurring adjustments, which are, in the opinion of the Company, necessary for a fair presentation of the results for the interim periods presented. The financial information included in this Form 10-QSB should be read in conjunction with the Company's consolidated financial statements and related notes thereto included in the Form 10-KSB for the year ended June 30, 2006. The results of operations for the three months and six months ended December 31, 2006 are not necessarily indicative of the results to be expected for the full year ending June 30, 2007.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION AND SEGMENT REPORTING

The accompanying consolidated financial statements include the accounts of Franklin and ARG. ARG is a wholly owned subsidiary in South Korea that was used to design the cellular phone. All inter-company balances and transactions have been eliminated in consolidation.

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 and in operation during the three months and six months ended December 31, 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 include $540,000 of debt from ARG financial statements. 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.



USE OF 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.

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.

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 warrant the products over one year from the shipment. 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.

SHIPPING AND HANDLING COSTS

All outbound shipping and handling costs related to sales are included in selling, general, and administrative expense. Shipping and handling costs related to sales was $0 and $0 for the three months ended December 31, 2006 and 2005, respectively, and $0 and $0 for the six months ended December 31, 2006 due to FOB (free on board) shipping terms.

INVENTORIES

The Company's inventories are made up of finished goods and are stated at the lower of cost or market, cost being determined on a first-in, first-out basis. The Company assesses the inventory carrying value and reduces 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. The Company's customer demand is highly unpredictable, and can fluctuate significantly caused by factors beyond the control of the Company. The Company may maintain an allowance for inventories for potentially excess and obsolete inventories and inventories that are carried at costs that are higher than their estimated net realizable values.



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 | 7 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. The Company provides for amortization using the straight-line method over the license periods as follows:

| | |
|---|---|
| GSM/GPRS license | 5 years |
| Ezi text license | 5 years |
| USB Modem certifications | 3 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 December 31, 2006, the Company is not aware of any events or changes in circumstances that would indicate that the long-lived assets are impaired.

WARRANTIES

The Company does not provide any warranties on its products. However, the manufacturer provides limited warranties up to one year from the date of the sale to the Company's customers. These products are shipped directly from the manufacturer to the customers. As a result, the Company was not required to and does not accrue any warranty expenses during the three months and six months ended December 31, 2006 and 2005.

ADVERTISING AND MARKETING COSTS

The Company expenses the costs of advertising and marketing as incurred. The Company incurred $840.09 and $840.09 of advertising expenses and $25,062 and $30,168 of marketing expenses during the three months and six months ended December 31, 2006, respectively, and $1,685 and $1,954 of marketing expenses during the three months and six months ended December 31, 2005 respectively.



INCOME TAXES

No provision for income taxes for the years ended June 30, 2006 and 2005 was 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.

EARNINGS PER SHARE

The Company reports earnings per share in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share". Basic earnings per share are 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 provides broadband high speed data communication products such as 3G wireless modules and modems and the Company's products are marketed through Original Equipment Manufacturers ("OEMs") and distributors, as well as directly to operators and end users. As a result, the Company's sales and trade receivables are concentrated principally in the wireless industry.

The Company had substantial sales during the three months ended December 31, 2006 to three customers in the total amount of $1,605,000 or 89.05% of total sales and had related accounts receivables in the total amount of $112,500 or 98.57% of total accounts receivables. The Company had substantial sales during the six months ended December 31, 2006 to three customers in the total amount of $2,411,495 or 87% of total sales and had related accounts receivables in the total amount of $112,500 or 98.57% of total accounts receivables.

The Company purchases its inventories from one vendor. The Company purchased approximately $1,427,500 and $2,300,000 for the three months and six months ended December 31, 2006, respectively, and had related accounts payable of $585 and $210,000 as of June 30, 2006 and December 31, 2006.

The Company maintains its cash accounts with established commercial banks. Such cash deposits periodically exceed the Federal Deposit Insurance Corporation insured limit of $100,000 for each account. However, the Company does not anticipate any loss on excess deposits.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2006 and June 30, 2006 consisted of the following:

| | (UNAUDITED) DECEMBER 31, 2006 | JUNE 30, 2006 |
|---|---|---|
| Computers and software | $ 32,053 | $ 30,640 |
| Furniture and fixtures | 9,873 | 8,713 |
| | $ 41,926 | 39,353 |
| Less accumulated depreciation | (29,482) | (26,638) |
| TOTAL | $ 12,444 | $ 12,715 |



NOTE 5 - INVESTMENT IN SUBSIDIARY

In April 2002, the Company invested $384,615 in its wholly owned subsidiary in South Korea for R&D and manufacturing support. Since August 2003 and as of December 31, 2006 and June 30, 2006, ARG has been inactive.

NOTE 6 - INTANGIBLE ASSETS

The Company purchased licenses to design phone and data communication products.

Below are the details for the licenses.

| | (UNAUDITED) DECEMBER 31, 2006 | JUNE 30, 2006 |
|---|---|---|
| GSM software license | $ 200,000 | $ 200,000 |
| Text input methods license | 25,000 | 25,000 |
| Certifications: CDG test license | 109,280 | 55,500 |
| | 334,280 | 280,500 |
| Less accumulated amortization | (215,663) | (176,305) |
| TOTAL | $ 118,617 | $ 104,195 |

Amortization expense associated with intangible assets was $20,357 and $11,250 for the three months ended December 31, 2006 and 2005, respectively, and $39,358 and $22,500 for the six months ended December 31, 2006 and 2005, respectively,

NOTE 7 - OTHER ASSETS

Other assets as of December 31, 2006 and June 30, 2006 consisted of facility lease and utility deposits.

NOTE 8 - OTHER CURRENT LIABILITY

The Company received $400,000 in advance from an unaffiliated company for future common stock share issuance during the six months ended December 31, 2006. On October 18, 2006, the Company issued 15,000,000 shares of its common stock at $0.0091 per share approximately, total valued at $136,364. The Company plans to issue additional 29,000,000 shares of its common stock at $0.0091 per share approximately, total valued at $263,636, during the three months ended March 31, 2007.

NOTE 9 - NOTES PAYABLE TO STOCKHOLDERS

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 (which includes $50,000 of 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 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 and December 31, 2006, this note was not converted to the Company's common stock and $10,000 was paid during the year ended June 30, 2006.

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NOTE 10 - ACCRUED LIABILITIES

Accrued liabilities at December 31, 2006 and June 30, 2006 consisted of the following:

| | (UNAUDITED) DECEMBER 31, | JUNE 30, |
|---|---|---|

| | 2006 | 2006 |
|---|---|---|
| Accrued Salaries | $ 111,418 | $ 131,750 |
| Accrued professional fees | 31,217 | 52,840 |
| Other accrued liabilities | 3,605 | 6,378 |
| TOTAL | $ 146,240 | $ 190.968 |

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.

LITIGATION

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.

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 December 31, 2006, the Company did not have any dilutive common stock shares.

NOTE 13 - SUBSEQUENT EVENTS

The Company received $400,000 in advance from an unaffiliated company for future a Common Stock issuance during the six months ended December 31, 2006. On October 18, 2006, the Company issued 15,000,000 shares of its Common Stock at $0.0091 per share, for a value of $136,364, to partially complete this transaction. The Company plans to issue the remaining 29,000,000 shares, also at $0.0091 per share, with a valuation of $263,636, during the three months ended March 31, 2007.

On September 11, 2006, the Board of Directors approved an increase in the authorized shares of Common Stock to 1,200,000,000 shares from 900,000,000 shares, subject to shareholder approval.

NOTE 14 - RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the FASB issued Final Interpretation No. 48 ("FIN No. 48"), "Accounting for Uncertainty in Income Taxes," an interpretation of SFAS No. 109. FIN No. 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN No. 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. In addition, FIN No. 48 excludes income taxes from the scope of SFAS No. 5, "Accounting for Contingencies." FIN No. 48 is effective for fiscal years beginning after December 15, 2006. Differences between the amounts recognized in the consolidated balance sheets prior to the adoption of FIN No. 48 and the amounts reported after adoption will be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. The Company is currently evaluating the effect that the adoption of FIN No. 48 will have on its results of operations and financial position.



The Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 155, "Accounting for Certain Hybrid Financial Instruments" ("SFAS No. 155") in February 2006. SFAS No. 155 amends SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), and SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS No. 140") and addresses the application of SFAS No. 133 to beneficial interests in securitized financial assets. SFAS No. 155 establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. Additionally, SFAS No. 155 permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS No. 155 is effective for financial instruments acquired or issued after January 1, 2007. The adoption of SFAS No. 155 is not expected to have a material effect on the Company's consolidated financial position and results of operations.

In May 2005, FASB issued Statement of the Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3." This Statement requires the retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto included in Item 1 of this filing and the financial statements and notes thereto, and Management's Discussion and Analysis or Plan of Operation contained in the Company's Form 10-KSB for the year ended June 30, 2006.

## BUSINESS OVERVIEW

Franklin Wireless Corp. ("Franklin" or the "Company") designs, builds, and markets broadband high speed data communication products such as 3G 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 In addition, service for its technology is provided to vertical application 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, South America, and parts of Europe in a wide range of industries including cellular operators, government, PC maker, and application integrator. In summary, the Company's products are marketed to cellular operators for end-users as well as computer/handheld computing industry, automotive industry, telemetry, other vertical markets.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company believes the following critical accounting policies affect the Company's more significant judgments and estimates used in the preparation of the financial statements.

USE OF 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 warrant the products over one year from the shipment. 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.

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 December 31, 2006, the Company is not aware of any events or changes in circumstances that would indicate that the long-lived assets are impaired.

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.

RESULTS OF OPERATIONS

The following table sets forth, for the three months and six months ended December 31, 2006, and 2005, selected consolidated statements of operations data expressed as a percentage of sales:

| | THREE MONTHS ENDED DECEMBER 31, | | SIX M DEC |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Net Sales | 100.0% | 100.0% | 100.0 |
| Cost of goods sold | 73.2% | 53.0% | 72.0 |
| Gross profit | 26.8% | 47.0% | 28.0 |
| Operating expenses: | | | |
| Selling, general and administrative expenses | 15.3% | 225.6% | 17.1 |
| Research and development | - | - | |
| Total operating expenses | 15.3% | 225.6% | 17.1 |
| Income (Loss) from operations | 11.5% | (178.6%) | 10.9 |
| Other income (expense), net | 0.4% | 18.4% | 0.4 |
| Net income (loss) before income taxes | 11.9% | (160.2%) | 11.3 |
| Provision for income taxes | - | (1.0%) | |
| Net income (loss) | 11.9% | (161.2%) | 11.3 |

The results of the interim periods are not necessarily indicative of results for the entire fiscal year

THREE MONTHS ENDED DECEMBER 31, 2006 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 2005

NET SALES - Net sales increased by $1,720,122 or 2,136.8%, to $1,800,622 for the three months ended December 31, 2006 from $80,500 for the corresponding period of 2005. The overall increase is primarily due to increase in sales of modem and module products, principally due to a substantial increase in demand from customers in Latin America.

GROSS PROFIT - Gross profit decreased in terms of net sales percentage as the percentage of gross profit, which was 26.8% for the three months ended December 31, 2006, compared to 47.0% for the corresponding period of 2005. The gross profit percentage decrease can be attributed to the increase in cost of goods sold due to the increase in sales of modem and module products for the three months ended December 31, 2006, while having no cost of sales, which was due to the service sales, for the corresponding period of 2005.

SELLING, GENERAL, AND ADMINISTRATIVE - Selling, general, and administrative expenses increased by $93,812, or 51.65%, to $275,450 for the three months ended December 31, 2006 from $181,638 for the corresponding period of 2005. The increase can be attributed to the increased sales/marketing efforts, increased cost of travel expenses, payroll, and other general and administrative infrastructure.

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OTHER INCOME (EXPENSE), NET -Other income decreased by $7,577 or 51.14%, to $7,237 for the three months ended December 31, 2006 from $14,814 for the corresponding period of 2005.

SIX MONTHS ENDED DECEMBER 31, 2006 COMPARED TO SIX MONTHS ENDED DECEMBER 31, 2005

NET SALES - Net sales increased by $2,609,760 or 1,627.1%, to $2,770,150 for the six months ended December 31, 2006 from $160,390 for the corresponding period of 2005. The change is principally due to the shift in the Company's business strategy, from being a product engineering company to a product development/marketing company, and the increased customer demands in Latin America.

GROSS PROFIT - Gross profit decreased in terms of net sales percentage as the percentage of gross profit, which was 28.0% for the six months ended December 31, 2006, compared to 62.5% for the corresponding period of 2005. The gross profit percentage decrease can be attributed to the increase in cost of goods sold due to the increase in sales of modem and module products for the six months ended December 31, 2006, while having no cost of sales, which was due to the service sales, for the corresponding period of 2005.

SELLING, GENERAL, AND ADMINISTRATIVE - Selling, general, and administrative expenses increased by $189,342 or 66.35%, to $474,714 for the six months ended December 31, 2006 from $285,372 for the corresponding period of 2005. The increase can be attributed to the increased sales/marketing efforts, increased accounting charges, and increased cost of travel expenses, payroll, and other general and administrative infrastructure

OTHER INCOME (EXPENSE), NET - Other income decreased by $1,965 or 13.54%, to $12,547 for the six months ended December 31, 2006 from $14,512 for the corresponding period of 2005.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents increased by $446,302, to $1,014,689 as of December 31, 2006 compared to $568,387 as of June 30, 2006. The increase was primarily due to an advance from a private investor, $263,636, the increase in common stock of $136,364 that was issued on October 18, 2006, the increase in accounts payable of $212,654 for purchasing inventory for sales, and the increase resulting from the net profit of $312,583.

The Company believes that anticipated working capital to be generated by future operations will be sufficient to support the Company's working capital requirements through June 30, 2007.

OPERATING ACTIVITIES - Net cash provided by operating activities amounted to $102,655 for the six months ended December 31, 2006. Net cash used by operating activities amounted to $134,911 for the corresponding period of 2005. The increase from the prior period relates mainly to increase in net income and accounts payable for the inventory purchase due to the increase in sales of module and modem products.

INVESTING ACTIVITIES - Net cash used in investing activities totaled $56,353 and $1,837 for the six months ended December 31, 2006 and 2005, respectively, consisting of capital expenditures.

FINANCING ACTIVITIES - Net cash provided by financing activities for the six months ended December 31, 2006 and 2005 totaled $400,000 and $305,000, respectively, which consisted of proceeds from its future common stock issuance and issue of common stock.



CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

The Company's material off-balance sheet contractual commitment is operating lease obligation. We excluded this item from the balance sheet in accordance with GAAP. We do not maintain any other off-balance sheet arrangements, transactions, obligations or other relationships with unconsolidated entities that would be expected to have a material current or future effect upon our financial condition or results of operations.

The Company's principal future obligations and commitments as of December 31, 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.

LITIGATION

During June 2005, the Company's landlord filed a suit against the Company, alleging that it 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. The parties settled at $9,308, to be paid in twelve equal monthly installments commencing on December 6, 2005. The Company has paid the full amount, and the action has been dismissed.

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

ITEM 3. CONTROLS AND PROCEDURES

At the end of the period covered by this Form 10-QSB, the Company carried out an evaluation, under the supervision and with the participation of members of our management, including our Chief Executive Officer and Acting 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 Acting Chief Financial Officer concluded that, as of December 31, 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 interim financial statements for the six months ended December 31, 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.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

None.

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

The Company received $400,000 in advance from an unaffiliated company for Common Stock during the six months ended December 31, 2006. On October 18, 2006, the Company issued 15,000,000 shares of its common stock, at $0.0091 per share with a valued of $136,364, to partially complete this transaction. The Company plans to issue the remaining 29,000,000 shares, also at $0.0091 per share, for a total of $263,636, during the three months ended March 31, 2007.

The Company believes the issuance of Common Stock was exempt from the registration requirements of the Securities Act of 1933, as amended, by reason of Section 4(2) thereof.

The proceeds of the transaction will be utilized for general working capital purposes

On September 11, 2006, the Board of Directors approved an increase in the authorized shares of Common Stock to 1,200,000,000 shares from 900,000,000 shares, subject to shareholder approval. Once shareholder approval is obtained, the Company plans to issue the 29,000,000 shares described above.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.



ITEM 6. EXHIBITS

31.1 Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certificate of Acting Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certificate of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certificate of Acting Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002



SIGNATURES

Pursuant to the requirements of Section 13 of 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Franklin Wireless Corp.

By: /s/ OC Kim
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OC Kim
President and Acting Chief Financial Officer

Dated: February 7, 2007