

FRANKLIN WIRELESS CORP
Form 10-K
October 13, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For fiscal year ended June 30, 2009

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: 0-11616

FRANKLIN WIRELESS CORP.
(Exact name of Registrant as specified in its charter)

Nevada 95-3733534
(State or other jurisdiction of incorporation (I.R.S. Employer Identification Number)
or organization)

5440 Morehouse Drive, Suite 1000, 92121
San Diego, California (Zip code)
(Address of principal executive offices)

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$.001 per share

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 <input checked="" type="checkbox"/>
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Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

The aggregate market value of the voting common stock held by non-affiliates of the Registrant, based on the closing price of the Registrant's common stock on December 31, 2008, as reported by The OTC Bulletin Board, was approximately \$3,034,949. For the purpose of this calculation only, shares owned by officers, directors (and their affiliates) and 5% or greater stockholders have been excluded. The Registrant does not have any non-voting stock issued or outstanding.

The Registrant has 13,231,491 shares of common stock outstanding as of October 12, 2009.

FRANKLIN WIRELESS CORP.
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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-K:

- o the terms "we", "us", "our", "Franklin", "Franklin Wireless", or the "Company" refer to Franklin Wireless Corp. Our fiscal year ends on June 30; references to fiscal 2009 and fiscal 2008 and similar constructions refer to the fiscal year ended on June 30 of the applicable year.

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

PART I

ITEM 1. BUSINESS.

BUSINESS OVERVIEW

We design and sell broadband high speed wireless data communication products such as third generation (“3G”) and fourth generation (“4G”) wireless modules and modems. We focus on wireless broadband USB modems, which provide a flexible way for wireless subscribers to connect to the wireless broadband network with any laptop, table PC or desktop USB port without a PC card slot. The 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.

We market our products directly to wireless operators, and indirectly through strategic partners and distributors. Our global customer base extends from the United States to Caribbean and South American countries. Our Universal Serial Bus (“USB”) modems are certified by Sprint, Comcast Cable, Clearwire, Time Warner Cable, Cellular South, Mobi PCS, NTELOS, Cincinnati Bell, and ACS in the United States, by IUSACELL in Mexico, by Telefonica and Movilnet in Venezuela, by Centennial in Puerto Rico, by Alegro in Ecuador, by CellularOne in Bermuda and by TSTT in Trinidad and Tobago. We have built upon our strong customer relationships to help drive strategic marketing initiatives with our customers that provide additional opportunities to expand market reach by combining our expertise in wireless technologies with our customers’ sales and marketing base, creating access to additional indirect distribution channels.

OUR STRUCTURE

We were incorporated in 1982 in California and reincorporated in Nevada on January 2, 2008. The reincorporation had no effect on the nature of our business or our management.

Our headquarters office is located in San Diego, California. The office is principally composed of marketing, sales, operations, finance and administrative support. It is responsible for all customer-related activities, such as marketing communications, product planning, product management and customer support, along with sales and business development activities on a worldwide basis. The Korea-based business unit, ARG, is a wholly owned subsidiary, and this entity has been inactive since August 2003. On October 30, 2007, the Board of Directors approved the dissolution of ARG, and as a part of the dissolution, we assumed a note payable of \$334,000. The subsidiary did not have any operations for the years ended June 30, 2009, 2008, and 2007 or since August 2003.

SFAS No. 131, “Disclosures About Segments of an Enterprise and Related Information,” 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 operate in a single business segment consisting of sale of wireless access products with operating facility in the United States. We generate revenues from two geographic areas which consist of United States and Caribbean and South America.

OUR PRODUCTS

We are one of the first companies to introduce USB-type mobile broadband modems to the countries located in North America, the Caribbean, and South America. Our mobile broadband and data products include wireless USB modems, embedded modules, and stand-alone mobile broadband modems used for high-speed data services. Our products are designed to operate on a majority of wireless networks in the world, provide mobile subscribers with secure and

convenient high speed access to wireless data communications networks using laptops, handheld and desktop computers, and enable our customers to send and receive email with large file attachments, play interactive games, and receive, send, and download high resolution picture, video and music contents. Our products are based on widely deployed cellular technologies and operate across 3G and 4G networks, including:

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- Code Division Multiple Access (“CDMA”) technology 1xEVDO - Evolution Data Optimized technology in both revision 0 and revision A releases. Revision 0 modems have a download speed of up to 2.4 Mbps and the revision A products achieve broadband like speed of 3.1 Mbps.
- High Speed Packet Access (“HSPA”) based on the Universal Mobile Telecommunications System standard or sometimes referred to as Wideband Code Division Multiple Access (“WCDMA”) technology. This technology allows download speed of up to 14.4 Mbps.
 - Worldwide Interoperability for Microwave Access (“WIMAX”) based on the IEEE 802.16 standard.

The followings are a representative selection of our current CDMA and HSPA wireless data products:

USB MODEMS

- The CDU-680 Dual band 800/1900 MHz rev A USB modem is a state-of-the-art product featuring an upgraded EVDO revision A radio with downlink speed of up to 3.1 Mbps and uplink speed of up to 1.8 Mbps, it is the first product in its kind to incorporate onboard flash memory, a GPS receiver and a retractable USB connector which rotates more than 270°. The industry’s first onboard flash memory feature allows the Connection Manager software for Windows, Macintosh OS X and driver for Linux to be stored on the device so that CD or CD drive is not required for software installation. The Quick Installation Guide is also stored in the memory and is always within easy reach of the user.
- The CMU-300 WIMAX plus CDMA USB Modem is the first device that operates on both the 3G EVDO and 4G WIMAX networks. With the CMU-300, customers will have simple-to-access to the best possible mobile broadband connection: 3G or 4G.
- The CGU-628A tri band 850/1900/2100 MHz HSDPA and quad band 800/900/1800/1900 MHz GSM/GPRS USB modem features a downlink speed of up to 14.4 Mbps and an uplink speed of up to 384 Kbps. The tri band radio allows the modem to be used worldwide wherever there is HSDPA service and features a retractable USB connector.
- The CGU-720A quad band plus AWS 850/1700/1900/2100 MHz HSPA and quad band 800/900/1800/1900 MHz GSM/GPRS USB modem features a downlink speed of up to 7.2 Mbps and an uplink speed of up to 5.76 Mbps. The quad band plus AWS radio allows the modem to be used worldwide wherever there is HSPA service and features a retractable USB connector.

WIRELESS PC CARDS

- The CDX-680 Dual-band 800/1900 MHz EVDO Rev A Express Card modem has the same wireless connection performance as the CDU-680 but features an Express Card 34 form factor.

STAND-ALONE MODEMS

- The CDM-650 is a stand-alone Dual-band 800/1900 MHz EVDO rev 0 USB modem available for Machine-to-Machine and Vertical Application markets, such as customers who need internet connection in a kiosk or remote locations where there are no cable or DSL services. The CDM-650 is a completely stand-alone modem with a metallic housing, external antenna, a serial port and a USB port for ease of integration with any applications and computer systems.

CUSTOMERS

Our global customer base is comprised of wireless operators, strategic partners and distributors, and it extends from the United States to Caribbean and South American countries. Our Universal Serial Bus (“USB”) modems are certified by Sprint, Comcast Cable, Clearwire, Time Warner Cable, Cellular South, Mobi PCS, NTELOS, Cincinnati Bell, and ACS in the United States, by IUSACELL in Mexico, by Telefonica and Movilnet in Venezuela, by Centennial in Puerto Rico, by Alegro in Ecuador, by CellularOne in Bermuda and by TSTT in Trinidad and Tobago. We have built upon our strong customer relationships to help drive strategic marketing initiatives with our customers that provide additional opportunities to expand market reach by combining our expertise in wireless technologies with our customers’ sales and marketing base, creating access to additional indirect distribution channels.

SALES AND MARKETING

We market our products primarily to wireless operators either directly or indirectly through strategic partners and distributors located in North America, the Caribbean, and South America. Most of our sales to wireless operators are through the use of our indirect strategic partners and selected sales distributors. A significant portion of our revenue comes from the United States.

CDMA Development Group (“CDG”) test certifications are required to launch and market new CDMA wireless data products with wireless operators in North America, the Caribbean and South America, and PCS Type Certification Review Board (“PTCRB”) test certifications are required for HSPA wireless data products. Certifications are issued as being a qualifier of CDG1, CDG 2 and CDG 3 as well as PTCRB. We are currently selling our wireless broadband modems with about nine wireless operators in the North America and about seven wireless operators in the Caribbean and South America.

In order to maintain and enhance our strong sales relationships, we are expanding our sales and technical team as well as access to additional distribution channels. We are also engaged in a variety of marketing activities, such as co-marketing with our vendor, trade show support, and products marketing development support. In the United States, we are continuing to expand our strategic relationships with major wireless operators and industry leaders through increased marketing activities in order to drive our market reach and sales by combining our expertise in wireless technologies with their global subscriber bases.

PRODUCTION AND MANUFACTURING OPERATIONS

Our facility is located in San Diego, California. Manufacturing of our products is contracted out to C-Motech Co. Ltd. (“C-Motech”), an electronics manufacturing company, located in South Korea.

In January 2005, the Company entered into a manufacturing and supply agreement (the “Agreement”) with C-Motech for the manufacture of its products. Under the Agreement, C-Motech provides the Company with services, including all licenses, component procurement, final assembly, testing, quality control, fulfillment and after-sale service. The Agreement provides exclusive rights to market and sell CDMA wireless data products in countries in North America, the Caribbean, and South America. Furthermore, the Agreement provides that the Company is responsible for marketing, sales, field testing, and certifications of these products to wireless service operators and other commercial buyers that are customers or potential customers within a designated territory, and C-Motech is responsible for design, development, testing, CDG certification, and completion of these products. Under the Agreement, products include all access devices designed with Qualcomm’s MSM 5100, 5500, 6500, and 6800 chipset solutions provided or designed by C-Motech or both companies. Both companies own the rights to the products: USB modems, Card Bus, PCI Bus and Module designed with MSM 5500 dual band products. On January 30, 2007, C-Motech also certified that the Company has the exclusive rights to sell CDU-680 EVDO USB modems directly and indirectly in these territories.

The initial term of the Agreement was for two years, commencing on January 5, 2005. The agreement automatically renews for successive one year periods unless either party provides a written notice to terminate at least sixty days prior to the end of the term. This agreement may be amended or supplemented by mutual agreement of the parties, as is necessary to document the addition of any new products. The agreement will be valid for an additional one year period and expires on January 4, 2010.

EMPLOYEES

As of June 30, 2009, we had sixteen full time employees and four full time consultants. We also use the services of consultants and contract workers from time to time. Our employees are not represented by any collective bargaining organization, and we have never experienced a work stoppage. We believe that our relationship with our employees is amicable.

ITEM 1A: RISK FACTORS.

The following risk factors do not purport to be a complete explanation of the risks involved in our business.

WE NEED ADDITIONAL FINANCING DUE TO LIMITED RESOURCES. Our financial resources are limited, and the amount of funding that is required to develop and commercialize our products and technologies is highly uncertain. Adequate funds may not be available when needed or on terms satisfactory to us. Lack of funds may cause us to delay, reduce and/or abandon certain or all aspects of our development and commercialization programs. We plan to seek additional financing through the issuance of equity or convertible debt securities. The percentage ownership of our stockholders will be reduced, stockholders may experience additional dilution, and such securities may have rights, preferences and privileges senior to those of our Common and Preferred Stock. There can be no assurance that additional financing will be available on terms favorable to us or at all. If adequate funds are not available or are not available on acceptable terms, we may not be able to fund our expansion, take advantage of desirable acquisition opportunities, develop or enhance services or products or respond to competitive pressures. Such inability could have a materially adverse effect on our business, results of operations and financial conditions.

WE MAY INFRINGE THE INTELLECTUAL PROPERTY RIGHTS OF OTHERS. The industry in which we operate has many participants that own, or claim to own, proprietary intellectual property. In the past we have received, and in the future may receive, claims from third parties alleging that we, and possibly our customers, violate their intellectual property rights. Rights to intellectual property can be difficult to verify and litigation may be necessary to establish whether or not we have infringed the intellectual property rights of others. In many cases, these third parties are companies with substantially greater resources than us, and they may be able to, and may choose to, pursue complex litigation to a greater degree than we could. Regardless of whether these infringement claims have merit or not, we may be subject to the following:

- We may be liable for potentially substantial damages, liabilities and litigation costs, including attorneys' fees;
- We may be prohibited from further use of the intellectual property and may be required to cease selling our products that are subject to the claim;
- We may have to license the third party intellectual property, incurring royalty fees that may or may not be on commercially reasonable terms. In addition, there is no assurance that we will be able to successfully negotiate and obtain such a license from the third party;
- We may have to develop a non-infringing alternative, which could be costly and delay or result in the loss of sales. In addition, there is no assurance that we will be able to develop such a non-infringing alternative;
 - The diversion of management's attention and resources;
 - Our relationships with customers may be adversely affected; and
- We may be required to indemnify our customers for certain costs and damages they incur in such a claim.

In the event of an unfavorable outcome in such a claim and our inability to either obtain a license from the third party or develop a non-infringing alternative, then our business, operating results and financial condition may be materially adversely affected and we may have to restructure our business.

Absent a specific claim for infringement of intellectual property, from time to time we have and expect to continue to license technology, intellectual property and software from third parties. There is no assurance that we will be able to

maintain our third party licenses or obtain new licenses when required and this inability could materially adversely affect our business and operating results and the quality and functionality of our products. In addition, there is no assurance that third party licenses we execute will be on commercially reasonable terms.

Under purchase orders and contracts for the sale of our products we may provide indemnification to our customers for potential intellectual property infringement claims for which we may have no corresponding recourse against our third party licensors. This potential liability, if realized, could materially adversely affect our business, operating results and financial condition.

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

WE OPERATE IN THE HIGH-RISK TELECOM SECTOR. We are in a volatile industry. In addition, our revenue model is evolving and relies substantially on the assumption that we will be able to successfully complete the development and sales of our products and services in the marketplace. Our prospects must be considered in the light of the risk, uncertainties, expenses and difficulties frequently encountered by companies in the early stages of development and marketing. In order to be successful in the market we must, among other things:

- Complete development and introduction of functional and attractive products and services;
 - Attract and maintain customer loyalty;
- Establish and increase awareness of our brand and develop customer loyalty;
- Provide desirable products and services to customers at attractive prices;
- Establish and maintain strategic relationships with strategic partners and affiliates;
 - Rapidly respond to competitive and technological developments;
- Build operations and customer service infrastructure to support our business; and
 - Attract, retain, and motivate qualified personnel.

We cannot guarantee that we will be able to achieve these goals, and our failure to achieve them could adversely affect our business, results of operations, and financial condition. We expect that revenues and operating results will fluctuate in the future. There is no assurance that any or all of our efforts will produce a successful outcome.

WE OPERATE IN A FIELD WITH RAPIDLY CHANGING TECHNOLOGY. Since our products and services are new, we cannot be certain that these products and services will function as anticipated or be desirable to our intended markets. Our current or future products and services may fail to function properly, and if our products and services do not achieve and sustain market acceptance, our business, results of operations and profitability may suffer. If we are unable to predict and comply with evolving wireless standards, our ability to introduce and sell new products will be adversely affected. If we fail to develop and introduce products on time, we may lose customers and potential product orders.

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

WE DEPEND ON COLLABORATIVE ARRANGEMENTS. The development and commercialization of our products and services depend in large part upon our ability to selectively enter into and maintain collaborative arrangements with developers, distributors, service providers, network systems providers, core wireless communications technology providers and manufacturers, among others.

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

THE LOSS OF ANY OF OUR MATERIAL CUSTOMERS COULD ADVERSLY AFFECT OUR REVENUES AND PROFITABILITY, AND THEREFORE SHAREHOLDER VALUE. We depend on a small number of customers for a significant portion of our revenues. For the year ended June 30, 2009, three customers represented approximately 63.5% of our revenue. If any of these customers reduce their business with us, our revenues and profitability could decline, perhaps materially.

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

OUR PRODUCT-TO-MARKET CHALLENGE IS CRITICAL. Our success depends on our ability to quickly enter the market and establish an early mover advantage. We must implement an aggressive sales and marketing campaign to solicit customers and strategic partners. Any delay could seriously affect our ability to establish and exploit effectively an early-to-market-strategy.

AS OUR BUSINESS EXPANDS INTERNATIONALLY, WE WILL BE EXPOSED TO ADDITIONAL RISKS RELATING TO INTERNATIONAL OPERATIONS. Our expansion into international operations exposes us to additional risks unique to such international markets, including the following:

- Increased credit management risks and greater difficulties in collecting accounts receivable;
- Unexpected changes in regulatory requirements, wireless communications standards, exchange rates, trading policies, tariffs and other barriers;
 - Uncertainties of laws and enforcement relating to the protection of intellectual property;
 - Language barriers; and
 - Potential adverse tax consequences.

Furthermore, if we are unable to further develop distribution channels in countries in North America, the Caribbean and South America, we may not be able to grow our international operations, and our ability to increase our revenue will be negatively impacted.

GOVERNMENT REGULATION COULD RESULT IN INCREASED COSTS AND INABILITY TO SELL OUR PRODUCTS. Our products are subject to certain mandatory regulatory approvals in the United States and other regions in which we operate. In the United States, the Federal Communications Commission regulates many aspects of communications devices. Although we have obtained all the necessary Federal Communications Commission and other required approvals for the products we currently sell, we may not obtain approvals for future products on a timely basis, or at all. In addition, regulatory requirements may change or we may not be able to obtain regulatory approvals from countries other than the United States in which we may desire to sell products in the future.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Inapplicable.

ITEM 2. DESCRIPTION OF PROPERTIES.

We lease approximately 6,070 square feet of office space in San Diego, California, at a monthly rent of \$9,105, and the lease expires on August 31, 2011. In addition to a monthly rent, the lease provides for periodic cost of living increases in the base rent and payment of common area costs. Our facility is covered by an appropriate level of insurance and we believe it to be suitable for our respective use and adequate for our present needs.

ITEM 3. LEGAL PROCEEDINGS.

We are from time to time involved in certain legal proceedings and claims arising in the ordinary course of business. On January 14, 2009, DNT, LLC filed a complaint in the United States District Court for the Eastern District of Virginia against one of our customers as one of six nominal defendants on behalf of alleged patent infringement of U.S. Patent No. RE 37,660 by the products that have been provided by us. Pursuant to our agreement with the customer, the customer has sent the notice that we will defend and indemnify it in this matter, including hiring counsel to prepare an answer or other response to the complaint. As of June 30, 2009, this legal proceeding is pending and we do not expect a material adverse effect on our financial condition for the year ended June 30, 2009 and thereafter.

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

No matters were submitted to a vote of our stockholders during the fourth quarter of the fiscal year 2009.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES.

MARKET PRICE OF OUR COMMON STOCK

Share of our Common Stock are quoted and traded on the OTC Bulletin Board" under the trading symbol "FKWL.OB". The following table sets forth the range of high and low bid quotation per share for the Common Stock as reported during the years ending June 30, 2009 and 2008. The bid price reflects inter-dealer prices and does not include retail mark-up, markdown, or commission. Prices have been adjusted to reflect a 1 for 70 reverse stock split in January 2008.

High	Low
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