

FRANKLIN WIRELESS CORP
Form 10-Q
February 14, 2011

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, 2010

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
(State or other jurisdiction of incorporation or
organization)

95-3733534
(I.R.S. Employer Identification Number)

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

92121
(Zip code)

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

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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 11,977,808 shares of common stock outstanding as of February 14, 2011.

FRANKLIN WIRELESS CORP.
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FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2010

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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 captions “Business,” “Management’s Discussion and Analysis of Financial Condition and Results of Operation, and elsewhere in this Annual 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 various other 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” in Item 1A of our Annual Report on Form 10-K for the year ended June 30, 2010. 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
(unaudited)

	December 31, 2010	June 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,809,635	\$ 16,107,501
Accounts receivable	4,605,231	3,118,754
Inventories	320,465	197,630
Prepaid expenses and other current assets	49,824	35,453
Prepaid income taxes	109,649	–
Deferred tax assets, current	372,190	372,190
Advance payment to vendor	630,380	458,034
Total current assets	21,897,374	20,289,562
Property and equipment, net	460,598	985,303
Intangible assets, net	2,479,653	2,858,902
Deferred tax assets, non-current	1,296,075	1,299,746
Goodwill	273,285	273,285
Other assets	220,068	188,281
TOTAL ASSETS	\$ 26,627,053	\$ 25,895,079
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	\$ 4,644,915	\$ 1,046,602
Trade accounts payable – related party	466,290	5,371,153
Advance payments from customers	5,615	309,000
Income taxes payable	–	929,538
Accrued liabilities	362,185	732,165
Marketing funds payable	1,623,423	1,277,319
Other current payable	1,873,065	–
Short-term borrowings	–	173,511
Long-term borrowings, current portion	–	68,165
Total current liabilities	8,975,493	9,907,453
Long-term borrowings	–	163,596
Other long-term liabilities	137,680	154,806
Total liabilities	9,113,173	10,225,855
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, 2010 and June 30, 2010	–	–
Common stock, par value \$0.001 per share, authorized 50,000,000 shares; 11,977,808 and 13,781,491 shares issued and outstanding as of December 31, 2010	13,711	13,711

and June 30, 2010, respectively

Additional paid-in capital	5,990,702	5,556,525
Retained earnings	12,140,002	8,981,906
Treasury stock, 1,803,684 shares as of December 31, 2010	(1,873,065)	–
Non-controlling interests	1,337,420	1,129,680
Accumulated other comprehensive loss	(94,890)	(12,598)
Total stockholders' equity	17,513,880	15,669,224
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 26,627,053	\$ 25,895,079

See accompanying notes to unaudited financial statements.

FRANKLIN WIRELESS CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2010	2009	2010	2009
Net sales	\$ 15,582,793	\$ 25,177,226	\$ 32,145,635	\$ 30,302,163
Cost of goods sold	9,483,026	22,279,796	21,156,049	26,632,873
Gross profit	6,099,767	2,897,430	10,989,586	3,669,290
Operating expenses:				
Selling, general, and administrative	2,497,214	1,458,504	5,448,292	2,034,998
Total operating expenses	2,497,214	1,458,504	5,448,292	2,034,998
Income from operations	3,602,553	1,438,926	5,541,294	1,634,292
Other income (loss), net:				
Interest income	11,080	10,593	24,302	23,868
Gain from sale of property and equipment	120	–	212,303	–
Loss on disposal of property and equipment	(1,054)	–	(140,283)	–
Other income (loss), net	(104,284)	22,094	(16,548)	22,881
Total other income (loss), net	(94,138)	32,687	79,774	46,749
Net income before provision for income taxes	3,508,415	1,471,613	5,621,068	1,681,041
Income tax provision	1,105,232	575,514	2,255,232	650,521
Net income before non-controlling interests	2,403,183	896,099	3,365,836	1,030,520
Non-controlling interests in net income of subsidiary at 49.4%	(371,906)	(74,553)	(207,740)	(74,553)
Net income	\$ 2,031,277	\$ 821,546	\$ 3,158,096	\$ 955,967
Basic earnings per share	\$0.17	\$0.06	\$0.25	\$0.07
Diluted earnings per share	\$0.17	\$0.06	\$0.25	\$0.07
Weighted average common shares outstanding – basic	11,977,808	13,548,339	12,717,023	13,389,915
Weighted average common shares outstanding – diluted	12,150,765	13,664,682	12,889,980	13,486,258

See accompanying notes to unaudited financial statements.

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

	Six Months Ended December 31,	
	2010	2009
CASH FLOWS FROM OPERATIONS ACTIVITIES:		
Net income	\$ 3,158,096	\$ 955,967
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Non-controlling interests	207,740	74,553
Gain on sale of property and equipment	(212,303)	–
Loss on disposal of property and equipment	140,283	848
Depreciation	69,757	78,909
Amortization of intangible assets	454,704	75,031
Write off of uncollectible accounts receivable	–	6,000
Deferred tax assets	3,671	(26,446)
Share-based compensation	434,177	18,384
Increase (decrease) in cash due to change in:		
Accounts receivable	(1,486,477)	(6,074,327)
Inventory	(122,835)	1,944,163
Prepaid expense and other current assets	(14,371)	(75,020)
Prepaid income taxes	(109,649)	18,503
Advance payment to vendor	(172,346)	–
Other assets	(31,787)	(19,935)
Trade accounts payable, including related party	(1,306,550)	2,004,323
Advance payment from customers	(303,385)	(187,076)
Income taxes payable	(929,538)	–
Accrued liabilities	(369,980)	615,607
Marketing funds payable	346,104	121,429
Other liabilities	(17,126)	–
Net used in operating activities	(261,815)	(469,087)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(67,676)	