FRANKLIN WIRELESS CORP
Form 10-K/A
April 03, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

AMENDMENT NO.1 TO
FORM 10-K

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

FOR FISCAL YEAR ENDED JUNE 30, 2008

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)

Registrant's Telephone Number, including area code: (858) 623-0000

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 [X]

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 [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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. [X]

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 [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]

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 September 22, 2008, as reported by The OTC Bulletin Board, was approximately $12,166,670. For the purpose of this calculation, shares owned by officers, directors (and their affiliates) and 5% or greater stockholders have been excluded.

The Registrant has 13,231,491 shares of common stock outstanding as of September 22, 2008

EXPLANATORY NOTE

On February 17, 2009 Franklin Wireless Corp. received a letter from the Securities and Exchange Commission (the "SEC") regarding our Form 10-K for the year ended June 30, 2008. We have responded to the SEC's comments to our Form 10-K (the "ORIGINAL REPORT") in this Amendment No. 1 (the "AMENDMENT"). The purpose of the Amendment is to disclose the restatement of our financial statements for the fiscal year ended June 30, 2008 and to make appropriate changes to the Management's Discussion and Analysis of Financial Condition and Results of Operation. As a result of the restatement, the following adjustments were made to our financial statements and our Management's Discussion and Analysis of Financial Condition and Results of Operation for the fiscal year ended June 30, 2008:

1. The subsection entitled "Cash and Cash Equivalents" in the section entitled "Summary of Significant Accounting Policies" in the Management's Discussion and Analysis of Financial Condition and Results of Operations (Item 7 of Amendment No. 1) has been revised to disclose that we classify only highly liquid investments with original maturities of three months or less to be cash equivalents, consistent with Paragraph 8 of SFAS No. 95. A similar change was made to Note 3 of Notes to Financial Statements.

2. The subsection entitled "Advertising and Marketing Costs" in the section entitled "Summary of Significant Accounting Policies" in the Management's Discussion and Analysis of Financial Condition and Results of Operations has been revised to separately state sales commission expenses and marketing development fund arrangements. A similar change was made to Note 3 of Notes to Financial Statements.

3. The subsection entitled "Income Taxes" in the section entitled "Summary of Significant Accounting Policies" in the Management's Discussion and Analysis of Financial Condition and Results of Operations has been revised to describe our policies with respect to provision for income taxes. Corresponding changes have been made to Note 14 of Notes to Financial Statements.

4. The table in Note 14 of Notes to Financial Statements, summarizing the components of our income tax expense, has been revised to report separately the benefits of operating loss carryforwards, pursuant to Paragraph 45e of SFAS No. 109.

5. A table has been added to Note 14 of the Notes to Financial Statements to provide the disclosure required by Paragraph 47 of SFAS No. 109.

The disclosures in this Amendment continue to speak as of the date of the Original Report, and do not reflect events occurring after the filing of the Original Report, except as specifically noted. Accordingly, this Amendment should be read in conjunction with our other filings made with the Securities and Exchange Commission subsequent to the filing of the Original Report, including any amendments to those filings. The filing of this Amendment shall not be deemed to be an admission that the Original Report, when made, included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

PART I

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and related notes included elsewhere in this report. We are not obligated to publicly update this information, whether as a result of new information, future events or otherwise, except to the extent we are required to do so in connection with our obligation to file reports with the SEC. For a discussion of the important risks to our business and future operating performance, see the discussion under the caption "Item 1A. Risk Factors" and under the caption "Factors That May Influence Future Results of Operations" below. In the lights of these risks, uncertainties and assumptions, the forward-looking events discussed in this report might not occur.

BUSIENSS OVERVIEW

We design and sell broadband high speed wireless data communication products. Our products include third generation ("3G") and fourth generation ("4G") wireless modules and modems. 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.

We market our products primarily to wireless operators either directly or indirectly through strategic partners and distributors located in countries in North America, the Caribbean and South America. Most of our sales to wireless operators are made through the use of our indirect strategic partners and selected sales distributors. Our global customer base extends from the United States to the Caribbean and South American countries. Our Universal Serial Bus ("USB") modems are certified by Sprint, Alltel, Cellular South, NTELOS, Cincinnati Bell, Mobi PCS, Qwest 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 and by TSTT in Trinidad and Tobago. We have strategic marketing relationships with several of these customers.

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 leading 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.

FACTORS THAT MAY INFLUENCE FUTURE RESULTS OF OPERATIONS

We believe that our revenue growth will be influenced largely by (1) successful maintenance of our existing customers, (2) the rate of increase in demand for wireless data products, (3) customer acceptance of our new products, (4) new customer relationships and contracts, and (4) our ability to meet customers' demands.

We have an agreement with C-Motech for the manufacturing of our products. Under our manufacturing agreements, C-Motech is responsible for design, development, testing, certification, and completion of these products. We believe that our cost of goods sold will depend on our ability to negotiate with C-Motech based on our capability in market development in light of increased competition.

We have entered into and expect to continue to enter into new customer relationships and contracts for the supply of our products, and this may require significant demands on our resources, resulting in increased operating, selling, and marketing expenses associated with such new customer development.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the Untied States of America requires management to make estimates and judgments that affect the reported amounts on those financial statements. Note 2 to the financial statements (included in this Annual Report on Form 10-K) describes the significant accounting policies and methods used in the preparation of the financial statements. On an ongoing

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basis, we evaluate those estimates including, but not limited to, those related to our intangible assets and long-lived assets. We base those estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different conditions or if our assumptions change.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements:

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. Significant estimates include useful lives of intangible and long-lived assets.

REVENUE RECOGNITION

We recognize revenue from product sales 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 product to the customers. We do not allow the right of return on product sales but provide a factory warranty for one year from the shipment, which is covered by our vendor.

CASH AND CASH EQUIVALENTS

We consider all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

SHIPPING AND HANDLING COSTS

Most of shipping and handling costs are paid by the customers directly to the shipping companies. We do not collect and incur shipping and handling costs to be capitalized.

INVENTORIES

Our 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. We assess the inventory carrying value and reduce it, if necessary, to its net realizable value based on customer orders on hand and internal demand forecasts using management's best estimates given information currently available. Our customer demand is highly unpredictable, and can fluctuate significantly caused by factors beyond our control. We 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. We provide 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.

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INTANGIBLE ASSETS - LICENSES AND CERTIFICATIONS

Licenses are stated at cost and are amortized using the straight-line method over the license periods of five years or life of the license. Certifications are stated at cost and are amortized using the straight-line method over the certification periods of three years or life of the certifications

VALUATION ON INTANGIBLE AND LONG-LIVED ASSETS

In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for Impairment on Disposal of Long-lived Assets", we review for impairment of long-lived assets and certain identifiable intangibles whenever events or circumstances indicate that the carrying amount of assets may not be recoverable. We consider the carrying value of assets may not be recoverable based upon our review of the following events or changes in circumstances: the asset's ability to continue to generate income from operations and positive cash flow in future periods; loss of legal ownership or title to the assets; significant changes in our strategic business objectives and utilization of the asset; or significant negative industry or economic trends. An impairment loss would be recognized when estimated future cash flows expected to result from the use of the asset is less than its carrying amount.

For the year ended June 30, 2008, we wrote off intangible assets of CDU-550 test certifications in the amount of $171,280, resulting in a total loss of $73,171, as these certifications were deemed impaired due to their inability to continue to generate income from operations and positive cash flow in future periods.

WARRANTIES

We do not allow the right of return on product sales but provide a factory warranty for one year from the shipment, which is covered by our vendor. These products are shipped directly from our vendor to our customers. As a result, we do not accrue any warranty expenses.

RESEARCH AND DEVELOPMENT COSTS

We have an agreement with C-Motech for the manufacturing of our products, including services of component procurement, design, development, final assembly, testing, quality control, fulfillment and delivery of these products. As a result, we do not accrue any significant research and development costs, primarily made up of developmental activities relating to our products.

ADVERTISING AND MARKETING COSTS

We expense the costs of advertising and marketing as incurred. We incurred $232,969 and $63,112 of advertising and marketing expenses for the years ended June 30, 2008 and 2007, respectively. The increase was primarily due to the net effect of the increase in marketing development fund arrangements of $218,000 and the decrease in other advertising and promotion expenses of approximately $48,000 for the year ended June 30, 2008, compared to the corresponding period of 2007.

The costs of $218,000 incurred by us for the marketing development fund arrangements were included within advertising and marketing costs in accordance with Financial Accounting Standards Board, or FASB, Emerging Issues Task Force, or EIFT, Issue No. 01-9, ACCOUNTING FOR CONSIDERATION GIVEN BY A VENDOR TO A CUSTOMER (INCLUDING A RESELLER OF THE VENDOR'S PRODUCT), or EITF No. 01-9, which provides guidance on the application of generally accepted accounting principles to selected recognition issues on PAYMENTS FROM A VENDOR TO A CUSTOMER.

SALES COMMISSION COSTS

We expense the costs of sales commission as incurred. We incurred $1,137,156 and $239,410 of sales commission expenses for the years Ended June 30, 2008 and 2007, respectively.

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INCOME TAXES

We adopted the provisions of FASB interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes -- an interpretation of FASB statement No. 109," which prescribes a recognition threshold and measurement process for recording in the financial statements, uncertain tax positions taken or expected to be taken in a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained.

We recognize federal and state tax liabilities or assets based on our estimate of taxes payable to or refundable by tax authorities in the current fiscal year. We also recognize federal and state tax liabilities or assets based on our estimate of 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. A valuation allowance is required when it is more likely than not that we will not be able to realize all or a portion of our deferred tax assets.

Income tax provision from continuing operations for the years ended June 30, 2008 and 2007 consists of the following:

	YEAR ENDED JUNE 30,	
	2008	2007
Current income taxes expense:		
Federal	$433,067	$ 26,409
State	156,382	8,781
	589,449	35,190
Deferred income taxes expense (benefits):	--	--

Provision for income taxes	$589,449	$ 35,190

The provisions for income taxes reconcile to the amount computed by Applying effective federal statutory income tax rate to income before Provision for income taxes as follows:

	YEAR ENDED JUNE 30,			
	2008	%	2007	%
Federal tax provision, at statutory rate	$ 1,532,163	34.0	$ 453,998	34.0
State tax, net of fed tax benefit	329,327	7.3	118,358	8.8
Nondeductible expenses	5,957	0.1	5,217	0.4
Credit	(23,291)	(0.5)	--	--
Valuation allowance	(1,213,017)	(26.9)	(546,519)	(40.9)
Others	(41,690)	(0.9)	4,136	0.3
Provision for income taxes	$ 589,449	13.1	$ 35,190	2.6

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets are as follows:

	YEAR ENDED JUNE 30	
	2008	2007
Current deferred tax asset (liabilities):		
Net operating losses	$ 170,883	$ --
Other, net	16,493	151,868
Non-current deferred tax assets (liabilities):		
Net operating losses	2,011,633	3,285,042
Credit	--	30,996
Other, net	(4,477)	(60,357)
Total deferred tax assets	2,194,532	3,407,549
Less valuation allowance	(2,194,532)	(3,407,549)
Net deferred tax asset	$ --	$ --

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The significant component of the deferred tax asset (liability) at June 30, 2008 and 2007 was federal net operating loss carry-forward in the amount of approximately $2,034,000 and $2,934,000, respectively, based on federal tax rate of 34%.

SFAS No. 109 requires a valuation allowance to be recorded when it is more likely than not that some or all of the deferred tax assets will not be realized. At June 30, 2008 and 2007, we established a full valuation allowance on our net deferred tax assets based on the available evidences, both positive and negative, to determine whether valuation allowance is needed. Based on our losses before income taxes in the past years before the fiscal year of 2007 and our estimated losses in the future three years, management believed that it was more likely than not that most of the deferred tax assets will not be realized. Valuation allowances for the full amount of the net deferred tax asset were established to reduce the deferred tax assets to zero based on the level of historical taxable income and projections for future taxable income over the period of three years. At June 30, 2008, the established valuation allowance for the net deferred tax asset was decreased by $1,213,017.

As of June 30, 2008, we have federal net operating loss carryforwards of approximately $5,983,000 and state net operating loss carryforwards of approximately $1,676,000 for income tax purposes after application of IRC Section 382 limitation on net operating losses as result of the Company's ownership change in prior period. The Federal and state net operating loss carryforwards will begin to expire from 2009 to 2026 and 2009 to 2016, respectively.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In July 2006, the FASB issued FASB interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes -- an interpretation of FASB statement No. 109," which prescribes a recognition threshold and measurement process for recording, in the financial statements, uncertain tax positions taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on the derecognizing, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. We have currently adopted and evaluated the impact, if any, that FIN 48 will have on our financial statements. FIN 48 is not expected to have a material impact on our financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, "FAIR VALUE MEASUREMENTS". This standard provides guidance for using fair value to measure assets and liabilities. The standard also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, but does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. There are numerous previously issued statements dealing with fair values that are amended by SFAS No. 157. SFAS No. 157 is not expected to have a material impact on our financial statements.

In February 2007, the FASB issued SFAS No. 159, "THE FAIR VALUE OPTION FOR FINANCIAL ASSETS AND FINANCIAL LIABILITIES--INCLUDING AN AMENDMENT OF FASB STATEMENT NO. 115". SFAS No. 159 permits companies to choose to measure certain financial instruments and other items at fair value. Most of the provisions in SFAS 159 are elective; however the amendment to SFAS 115, ACCOUNTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES, applies to all entities with available-for-sale securities. The fair value option established by SFAS 159 permits all entities to choose to measure eligible items at fair value at specified election dates. The standard requires that unrealized gains and losses are reported in earnings for items measured using the fair value option at each subsequent reporting date. SFAS No. 159 is effective for the Company beginning in the first quarter of fiscal year 2009. SFAS No. 159 and the amendments to SFAS 115 are not expected to have a material impact on our financial statements.

In June 2007, the FASB ratified Emerging Issues Task Force ("EITF") 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities ("EITF 07-3").

EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007. EITF 07-3 is not expected to have a material impact on our financial statements.

In December 2007, the FASB issued Statement No. 141 (revised), Business Combinations ("SFAS No. 141(R)"). The standard changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. SFAS No. 141(R) is not expected to have a material impact on our financial statements.

In December 2007, the FASB issued Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 ("SFAS No. 160"). The standard changes the accounting for noncontrolling (minority) interests in consolidated financial statements including the requirements to classify noncontrolling interests as a component of consolidated stockholders' equity, and the elimination of "minority interest" accounting in results of operations with earnings attributable to noncontrolling interests reported as part of consolidated earnings. Additionally, SFAS No. 160 revises the accounting for both increases and decreases in a parent's controlling ownership interest. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. SFAS No. 160 is not expected to have a material impact on our financial statements.

There are no other accounting standards issued as of September 22, 2008 that are expected to have a material impact on our consolidated financial statements.

RESULT OF OPERATIONS

The following table sets forth, for the years ended June 30, 2008, 2007 and 2006 (fiscal 2008, fiscal 2007, and fiscal 2006), our statements of operations data expressed as a percentage of sales:

	YEAR ENDED JUNE 30,		
	2008	2007	2006
	(as a percentage of sales)		
Net Sales	100.0%	100.0%	100.0%
Cost of goods sold	77.8%	74.0%	67.6%
Gross profit	22.2%	26.0%	32.4%
Operating expenses:			
Selling, general and administrative expenses	9.5%	13.3%	58.0%
Research and development	0.0%	0.0%	3.6%
Total operating expenses	9.5%	13.3%	61.6%

Income (loss) from operations	12.7%	12.7%	(29.2%)
Other income (expense), net	0.3%	0.2%	1.6%
Net income (loss) before income taxes	13.0%	12.9%	(27.6%)
Provision for income taxes	(1.7%)	(0.4%)	(0.1%)
Net income (loss)	11.3%	12.5%	(27.7%)

YEAR ENDED JUNE 30, 2008 COMPARED TO YEAR ENDED JUNE 30, 2007

NET SALES - Net sales increased by $24,338,209, or 234.4%, to $34,723,299 for the year ended June 30, 2008 from $10,385,090 for the corresponding period of 2007. The increase was primarily due to an increase in demand for our CDMA USB modem products in the Caribbean and South American countries. Our sales of CDMA USB modem products in the Caribbean and South American countries increased by $19,562,558, or 337.9 %, to $25,352,232 for the year ended June 30, 2008 from $5,789,674 for the corresponding period of 2007. Our sales of CDMA USB modem products in North America also increased by $5,088,786, or 118.9%, to $9,367,836 for the year ended June 30, 2008, from $4,279,050 for the corresponding period of 2007. The overall net sales are expected to continue to depend primarily on, among other thing, the geographic region of our sales efforts and demand by our customers.

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GROSS PROFIT - Gross profit margin increased by $4,998,924, or 185.5%, to $7,694,284 for the year ended June 30, 2008 from $2,695,360 for the corresponding period of 2007. The increase was primarily due to the increased sales volume of our CDMA USB modem products in the United States, the Caribbean, and South American countries. Our sales of CDMA USB modem products increased by $5,088,786, or 118.9%, in the Untied States and by $19,562,558, or 337.9 %, in the Caribbean and South American countries for the year ended June 30, 2008, compared to the corresponding period of 2007. Gross profit in terms of net sales percentage as the percentage of gross profit was 22.2% for the year ended June 30, 2008, compared to 26.0% for the corresponding period of 2007. The gross profit decrease in terms of net sales percentage was primarily due to the increased sales of lower margin as a result of the competitive pricing pressures on our sales prices.

SELLING, GENERAL, AND ADMINISTRATIVE - Selling, general, and administrative expenses increased by $1,917,644, or 138.7%, to $3,300,070 for the year ended June 30, 2008 from $1,382,426 for the corresponding period of 2007. The increase was primarily due to the increase in sales and marketing effort for the year ended June 30, 2008, resulting in not only increased sales and marketing expenses but also increased salary and related expenditures, as our sales-force increased. For the year ended June 30, 2008, we had an increase in sales commission expenses of $897,746, an increase in other sales and marketing expenses of $169,857, an increase in travel expenses of $69,264, and an increase in payroll expenses of $559,735, compared to the corresponding period of 2007.

OTHER INCOME (EXPENSE), NET - The net amount of other income increased by $89,795, or 401.7%, to $112,149 for the year ended June 30, 2008 from $22,354 for the corresponding period of 2007. The increase was primarily due to increased interest income of $135,094, resulting from the increase in our average cash, for the year ended June 30, 2008. For the year ended June 30, 2008, we had an increase in interest income of $96,579, an increase in other income of $46,474, and an increase in the loss of $54,004 from the write-off of intangible assets, compared to the corresponding period of 2007.

YEAR ENDED JUNE 30, 2007 COMPARED TO YEAR ENDED JUNE 30, 2006

NET SALES - Net sales increased by $9,382,137, or 935.5%, to $10,385,090 for the year ended June 30, 2007 from $1,002,953 for the corresponding period of 2006. The primary increase was due to sales of our CDMA USB modem products to a new carrier customer in North America, in the amount of $4,279,050 for the year ended June 30, 2007, as well as a strong increase in demand for our CDMA EV-DO data products in the Caribbean and South American countries. Our sales of CDMA EV-DO data products in the Caribbean and South American countries were $5,789,674 for the year ended June 30, 2007, compared to $753,130 for the corresponding period of 2006, an increase of $5,036,544, or 668.8%.

GROSS PROFIT - Gross profit margin increased by $2,370,562, or 729.9%, to $2,695,360 for the year ended June 30, 2007 from $324,798 for the corresponding period of 2006. Gross profit in terms of net sales percentage as the percentage of gross profit was 26.0% for the year ended June 30, 2007, compared to 32.4% for the corresponding period of 2006. The gross profit decrease in terms of net sales percentage was due to one-time commission revenue recognized as a non-refundable brokerage fee in the amount of $57,280, and sales of products that were provided by our vendors at no cost as part of initial seed stock incentive in the amount of $48,860 for the year ended June 30, 2006.

SELLING, GENERAL, AND ADMINISTRATIVE - Selling, general, and administrative expenses increased by $800,507, or 137.6%, to $1,382,426 for the year ended June 30, 2007 from $581,919 for the corresponding period of 2006. The increase was primarily a result of an increase in sales and marketing efforts, which included hiring new personnel to expand our marketing and customer support functions, which increased salary and related expenses. For the year ended June 30, 2007, we had an increase in sales commission expense of $239,410, an increase in marketing expense of $54,850, an increase in travel expense of $71,425, and an increase in payroll expense of $291,475, compared to the corresponding period of 2006.

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RESEARCH AND DEVELOPMENT - Research and development expenses decreased by $36,300, or 100.0%, to nil for the year ended June 30, 2007 from $36,300 for the corresponding period of 2006. We incurred research and development expense for design of Global Standard for Mobile Communications, or GSM, cellular phones, for the year ended June 30, 2006. For the year ended June 30, 2007, we did not incur research and development expense, as we discontinued GSM products and have contracted out our research and development of CDMA USB modem products to C-Motech Co. Ltd, a designer and original equipment manufacturer ("OEMs") of our wireless broadband modems and modules located in South Korea.

OTHER INCOME (EXPENSE), NET - The net of other income (expense) increased by $5,723 or 34.41%, to income of $22,354 for the year ended June 30, 2007 from income of $16,631 for the corresponding period of 2006. The increase was due to increase in interest income of $38,515, offset by a loss of $19,934 from write-off of fixed assets and intangible assets for the year ended June 30, 2007.

LIQUIDITY AND CAPITAL RESOURCES

Our principal liquidity requirements are for working capital and capital expenditures. We fund our liquidity requirements with cash on hand, cash flow from operations, and issuance of equity securities.

OPERATING ACTIVITIES - Net cash provided by operating activities increased by $2,089,502 to $3,835,893 for fiscal 2008 from $1,746,391 for fiscal 2007. The $3,835,893 in net cash provided by operating activities for fiscal 2008 was primarily due to our net income of $3,916,913. Net cash provided by operating activities for fiscal 2007 was $1,746,391, and net cash used in operating activities for fiscal 2006 was $205,239. The increase in net cash provided by operating activities for fiscal 2007 was primarily due to net income of $1,300,097 and increase in advance cash collections of $354,500 from customers as compared to fiscal 2006.

INVESTING ACTIVITIES - Net cash used in investing activities for fiscal 2008, fiscal 2007 and fiscal 2006 was $52,312, $137,185 and $60,916 respectively, primarily consisting of capital expenditures. The net cash used in investing activities for fiscal 2008 was primarily due to purchases of long-lived assets. The net cash used in investing activities for fiscal 2007 was primarily due to purchases of CDMA Development Group certifications in the amount of $115,780.

FINANCING ACTIVITIES - Net cash used in financing activities for fiscal 2008 was $88,605, primarily due to repayment of a loan in the amount of $100,000, offset by $11,395 received from a stock subscription. Net cash provided by financing activities for fiscal 2007 was $300,000, primarily due to proceeds of $400,000 from the issuance of Common Stock, offset by repayment of a loan in the amount of $100,000. Net cash provided by financing activities in fiscal 2006 was $795,000, primarily due to proceeds of $905,000 from the issuance of Common Stock, offset by repayment of borrowings to shareholders and a line of credit in the amount of $110,000.

CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

The following table summarizes our contractual obligations and commitments as of June 30, 2008, and the effect such obligations could have on our liquidity and cash flow in future periods:

PAYMENTS DUE BY JUNE 30,

LEASE	2009	2010	2011	2012	TOTAL
Administrative office facility	$ 91,050	$109,260	$109,260	$ 18,210	$327,780
Corporate housing facility	4,701	--	--	--	4,701
TOTAL OBLIGATION	$ 95,751	$109,260	$109,260	$ 18,210	$332,481

LEASES

We lease our administrative facilities under a non-cancelable operating lease that expires on August 31, 2011. In addition to the minimum annual rental commitments, the lease provides for periodic cost of living increases in the base rent and payment of common area costs. Rent expense related to the operating lease was $62,848 and $59,420 for the years ended June 30, 2008 and 2007, respectively.

We lease a corporate housing facility for our vendors under a non-cancelable operating lease that expires on October 2, 2008. Rent expense related to the operating lease was $17,829 and $2,770 for the years ended June 30, 2008 and 2007, respectively.

We lease one automobile under an operating lease that expires on July 22, 2009. The related lease expense was $6,452 and $6,795 for the years ended June 30, 2008 and 2007, respectively.

OFF-BALANCE SHEET ARRANGEMENT

Our facility is located in San Diego, California. Manufacturing of our products has been contracted out to C-Motech Co. Ltd. ("C-Motech"), located in South Korea.

In January 2005, we entered into an agreement with C-Motech for the manufacture of the products. Under the manufacturing and supply agreement, C-Motech provides us 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 our CDMA wireless data products in countries in North America, the Caribbean, and South America. Furthermore, the Agreement provides that we are responsible for marketing, sales, field testing, and certifications of these products to wireless service operators and other commercial buyers within a designated territory, and C-Motech is responsible for design, development, testing, 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 we have the exclusive right 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 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.

FUTURE LIQUIDITY AND CAPITAL REQUIREMENTS

For the next twelve months, we expect to incur approximately $1.0 million to $2.0 million for capital expenditures and the acquisition of additional certifications, excluding non-cash acquisitions.

We believe we will be able to fund our future cash requirements for operations from our cash available, operating cash flows and issuance of equity securities. We believe these sources of funds will be sufficient to continue our operations and planned capital expenditures. However, we may be required to raise additional debt or equity capital if we are unable to generate sufficient cash flow from operation to fund the continued expansion of our sales and to satisfy the related working capital requirements for next twelve months. Our ability to satisfy such obligations also depends upon our future performance, which in turn is subject to general economic conditions and regional risks, and to financial, business and other factors affecting our operations, including factors beyond our control. See Item 1A, "Risk Factors." included in this report.

If we are unable to generate sufficient cash flow from operations to meet our obligations and commitments, we will be required to refinance or restructure our indebtedness or raise additional debt or equity capital. Additionally, we may be required to sell material assets or operations or delay or forego expansion opportunities. We might not be able to affect these alternative strategies on satisfactory terms, if at all.

PART II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements and the supplementary financial information required by this Item and included in this report are listed in the Index to Financial Statements beginning on page F-1.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) See Index to Financial Statements

(b) Exhibits

The following Exhibits are files as part of, or incorporated by reference into, this Report on Form 10-K:

Exhibit No.	Description
2.1	Articles of Merger and Agreement and Plan of Reorganization, filed January 2, 2008 with the Nevada Secretary of State. (1)
3.1	Restated Articles of Incorporation of Franklin Wireless Corp. (1)
3.2	Bylaws of Franklin Wireless Corp. (1)
10.1	Co-Development, Co-Ownership and Supply Agreement, dated January 5, 2005 between the Company and C-Motech Co., Ltd. (2)
10.2	Lease, dated May 1, 2008, between the Company and RDLFA, LLC, a California Limited Liability Company (previously filed)
14.1	Code of Ethics (previously filed).
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

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(1) Incorporated by reference from Report on Form 10-QSB for the quarterly period ended March 31, 2008, filed on May 14, 2008

(2) Incorporated by reference from Annual Report on Form 10-KSB for the year ended June 30, 2005, filed on May 23, 2006

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SIGNATURES

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

Franklin Wireless Corp.

By: /s/ OC Kim

OC Kim, President

Dated: April 2, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
(1) Principal Executive, Financial and Accounting Officer		
/s/ OC KIM OC Kim	President, Acting Chief Financial Officer and a Director	April 2, 2009
(3) Directors		
/s/ GARY NELSON Gary Nelson	Chairman of the Board of Directors	April 2, 2009

/s/ JAE MAN LEE Jae Man Lee	Director	April 2, 2009

FRANKLIN WIRELESS CORP.

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Franklin Wireless Corp.
San Diego, California

We have audited the accompanying balance sheets of Franklin Wireless Corp. as of June 30, 2008 and 2007 and the related statements of operations, changes in stockholders' equity (deficiency), and cash flows for the years ended June 30, 2008, 2007 and 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The disclosures to the financial statements for the year ended June 30, 2008 in Notes 3 and 14 have been amended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Franklin Wireless Corp. as of June 30, 2008 and 2007, and the results of its operations and cash flows for the years ended June 30, 2008, 2007 and 2006 in conformity with accounting principles generally accepted in the United States of America.

Choi, Kim & Park, LLP
Los Angeles, California
September 22, 2008, except for Paragraphs 4, 14, 15, and 16 of Note 3, and Paragraphs 3 through 7 of Note 14, as to which the date is April 1, 2009

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FRANKLIN WIRELESS CORP.

BALANCE SHEETS

	FISCAL YEARS ENDED JUNE 30,	
	2008	2007
		(Consolidated)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,172,569	$ 2,477,593
Accounts receivable	4,534,069	44,915
Inventories	72,162	10,830
Prepaid income tax	355,393	--
Prepaid expenses	23,430	6,649
Total current assets	11,157,623	2,539,987
Property and equipment, net	68,012	26,218
Intangible assets, net	--	130,264
Other assets	15,411	5,161
TOTAL ASSETS	$11,241,046	$ 2,701,630
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 4,047,651	$ 68,064
Advanced payment from customers	390,000	354,500
Accrued liabilities	875,046	179,025
Notes payable to a stockholder	334,000	434,000
Total current liabilities	5,646,697	1,035,589

STOCKHOLDERS' EQUITY:		
Preferred stock, par value of $0.001 per share, authorized 10,000,000 shares; No preferred stock issued and outstanding as of June 30, 2008 and 2007	--	--
Common stock, par value of $0.001 per share, authorized 50,000,000 shares; Common stock of 13,231,491 issued and outstanding as of June 30, 2008 and 2007	13,232	13,232
Additional paid-in capital	5,016,161	5,016,161
Stock subscription receivable	--	(11,395)
Retained earnings (accumulated deficit)	564,956	(3,351,957)
Total stockholders' equity	5,594,349	1,666,041
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$11,241,046	$ 2,701,630

See accompanying notes to financial statements.

FRANKLIN WIRELESS CORP.
STATEMENTS OF OPERATIONS

	FISCAL YEARS ENDED JUNE 30,		
	2008	2007	2006
		(Consolidated)	(Consolidat
Net sales	$ 34,723,299	$ 10,385,090	$ 1,002,9
Cost of goods sold	27,029,015	7,689,730	678,1
Gross profit	7,694,284	2,695,360	324,7
Operating expenses:			
Research and development	--	--	36,3
Selling, general, and administrative	3,300,071	1,382,426	581,9
Total operating expenses	3,300,071	1,382,426	618,2
Income (loss) from operations	4,394,213	1,312,934	(293,4
Other income (expense):			
Interest expense	--	--	(5
Interest income	135,094	38,515	2,3
Loss on disposal of property and equipment	--	(767)	
Loss on write-off of intangible assets	(73,171)	(19,167)	
Other income (expense), net	50,226	3,772	14,8
Total other income (expense), net	112,149	22,353	16,6
Net income (loss) before income taxes	4,506,362	1,335,287	(276,7

Provision for income taxes	589,449	35,190	8
Net income (loss)	$ 3,916,913	$ 1,300,097	$ (277,5
Basic earnings (loss) per share	$ 0.30	$ 0.10	$ (0.
Diluted earnings (loss) per share	$ 0.30	$ 0.10	$ (0.
Weighted average common shares outstanding - basic	13,231,491	12,824,643	11,685,3
Weighted average common shares outstanding - diluted	13,231,491	12,824,643	11,685,3

See accompanying notes to financial statements.

FRANKLIN WIRELESS CORP.
STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIENCY)

	COMMON STOCKS				
	SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	STOCK S -SCRIPTI
Balance - June 30, 2006	12,602,911	$ 12,603	$ 4,616,790	$(4,652,054)	$ (17,
Issuance of common stock	628,580	629	399,371	--	
Payment of stock subscription receivables	--	--	--	--	6,
Net income	--	--	--	1,300,097	
Balance - June 30, 2007	13,231,491	13,232	5,016,161	(3,351,957)	(11,
Receipt of stock subscription receivables	--	--	--	--	11,
Net income	--	--	--	3,916,913	
Balance - June 30, 2008	13,231,491	$ 13,232	$ 5,016,161	$ 564,956	$

See accompanying notes to financial statements.

FRANKLIN WIRELESS CORP.
STATEMENTS OF CASH FLOWS

	FISCAL YEARS ENDED JUNE 30,		
	2008	2007	2006
		(Consolidated)	(Consolida
CASH FLOWS FROM OPERATIONS ACTIVITIES:			
Net income (loss)	$ 3,916,913	$ 1,300,097	$ (277,5

Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Loss on disposal of property and equipment	--	767	
Loss on impairment of intangible assets	73,171	19,167	
Depreciation	10,518	7,135	7,6
Amortization of intangible assets	57,093	70,544	49,2
Bad debt	2,200		
Increase (decrease) in cash due to change in:			
Accounts receivable	(4,491,354)	(43,165)	(1,7
Inventory	(61,332)	(10,830)	
Prepaid expense	(16,781)	(6,649)	
Prepaid income tax	(355,393)		
Other assets	(10,250)	(709)	(2,3
Accounts payable	3,979,587	67,478	(17,3
Accrued liabilities	696,021	(11,944)	40,8
Advanced payment from customers	35,500	354,500	
Other liabilities	--	--	(3,8
Net cash provided by (used in) operating activities	3,835,893	1,746,391	(205,2
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(52,312)	(21,405)	(5,4
Purchases of intangible assets	--	(115,780)	(55,5
Net cash used in investing activities	(52,312)	(137,185)	(60,9
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment to stockholders	--	--	(10,0
Cash payment for common stock repurchase	--	--	(100,0
Payment of note payable	(100,000)	(100,000)	
Proceeds from issuance of common stock	--	400,000	905,0
Receipt of stock subscription receivable	11,395	--	
Net cash provided by financing activities	(88,605)	300,000	795,0
Net increase in cash and cash equivalents	3,694,976	1,909,206	528,8
Cash and cash equivalents, beginning of year	2,477,593	568,387	39,5
Cash and cash equivalents, end of year	$ 6,172,569	$ 2,477,593	$ 568,3
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$ --	$ --	$ 5
Income taxes	$ 259,842	$ 800	$ 8
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITY:			
Common stock conversion from note payable	$ --	$ --	$ (40,0

See accompanying notes to financial statements.

FRANKLIN WIRELESS CORP.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 - BUSINESS OVERVIEW

We design and sell broadband high speed wireless data communication products such as 3G 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, tablet 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.

Our products are based on Evolution Data Optimized technology ("EV-DO technology") of Code Division Multiple Access ("CDMA") and High-Speed Packet Access technology ("HSPA technology") of Wideband Code Division Multiple Access ("WCDMA"), which are wireless radio broadband data standards adopted by many CDMA and WCDMA mobile service providers, and enable end users to send and receive email with large file attachments, play interactive games, receive, send and download high resolution picture, video, and music contents.

We market our products through two channels: directly to wireless operators, and indirectly through strategic partners and distributors. Our global customer base extends from the United States to the Caribbean and South American countries. Our Universal Serial Bus ("USB") modems are certified by Sprint, Alltel, Cellular South, NTELOS, Cincinnati Bell, Mobi PCS, Qwest 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 and by TSTT in Trinidad and Tobago. We have strategic marketing relationships with several of these customers.

Since we launched three new products, CDMA Revision A USB modem CDU-680, CDMA Revision 0 CDU-650 USB modem, and CDMA Revision 0 CDX-650 Express card modem in 2007, we have continued to add new features and functionality to our products to enhance value and ease of use that our products provide to our customers and end users. In 2008, we additionally launched the CGU-628 HSDPA USB modem, which provides a flexible way for users to connect to high-speed downlink packet access network, and the CDM-650 Stand-alone Revision 0 USB modem, which provides internet connection for users who are in remote locations where there are not cable or DSL services.

For the years ended June 30, 2008, 2007, and 2006, the revenue recognized from sales of our products was $34,723,299, $10,385,090, and $1,002,953, respectively.

NOTE 2 - DISCONTINUED OPERATIONS

On October 30, 2007, the Board of Directors approved the dissolution of its only subsidiary, ARG, which has been inactive since August 2003. As a part of the dissolution, we assumed a note payable of $434,000, a note payable. During the year ended June 30, 2008, we repaid $100,000 on this note, and the remaining balance amounted to $334,000 at June 30, 2008. The subsidiary did not have revenue, expense, asset or component of stockholders' equity as of June 30, 2008 and June 30, 2007, and for the years ended June 30, 2008 and 2007.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SEGMENT REPORTING

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.

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. Significant estimates include useful lives of intangible and long-lived assets.

REVENUE RECOGNITION

We recognize revenue from products sales 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 product to the customers. We do not allow the right of return on product sales but provide a factory warranty for one year from the shipment, which is covered by our vendor.

CASH AND CASH EQUIVALENTS

We consider all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

SHIPPING AND HANDLING COST

Most of shipping and handling costs are paid by the customers directly to the shipping companies. We do not collect and incur shipping and handling costs to be capitalized.

INVENTORIES

Our 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. We assess the inventory carrying value and reduce it, if necessary, to its net realizable value based on customer orders on hand, and internal demand forecasts using management's best estimates given information currently available. Our customer demand is highly unpredictable, and can fluctuate significantly caused by factors beyond our control. We 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. We provide 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 AND CERTIFICATIONS

Licenses are stated at cost and are amortized using the straight-line method over the license periods of five years or life of the licenses. Certifications are stated at cost and are amortized using the straight-line method over the certification periods of three years or life of the certifications.

VALUATION ON INTANGIBLE AND LONG-LIVED ASSETS

In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for Impairment on Disposal of Long-lived Assets", we review for impairment of long-lived assets and certain identifiable intangibles whenever events or circumstances indicate that the carrying amount of assets may not be recoverable. We consider the carrying value of assets may not be recoverable based upon our review of the following events or changes in circumstances: the asset's ability to continue to generate income from operations and positive cash flow in future periods; loss of legal ownership or title to the assets; significant changes in our strategic business objectives and utilization of the asset; or significant negative industry or economic trends. An impairment loss would be recognized when estimated future cash flows expected to result from the use of the asset is less than its carrying amount.

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For the year ended June 30, 2008, we wrote off intangible assets of CDG test certifications in the amount of $171,280, resulting in a total loss of $73,171, as these certifications were deemed impaired due to their inability to continue to generate income from operations and positive cash flow in future periods.

WARRANTIES

We do not allow the right of return on product sales but provides a factory warranty for one year from the shipment, which is covered by our vendor. These products are shipped directly from our vendor to our customers. As a result, we do not accrue any warranty expenses.

RESEARCH AND DEVELOPMENT COSTS

We have an agreement with C-Motech for the manufacturing of our products, including services of component procurement, design, development, final assembly, testing, quality control, fulfillment and delivery of these products. As a result, we do not accrue any significant research and development costs, primarily made up of developmental activities relating to our products.

ADVERTISING AND MARKETING COSTS

We expense the costs of advertising and marketing as incurred. We incurred $232,969 and $63,112 of advertising and marketing expenses for the years ended June 30, 2008 and 2007, respectively. The increase was primarily due to the net effect of the increase in marketing development fund arrangements of $218,000 and the decrease in other advertising and promotion expenses of approximately $48,000 for the year ended June 30, 2008, compared to the corresponding period of 2007.

The costs of $218,000 incurred by us for the marketing development fund arrangements were included within advertising and marketing costs in accordance with Financial Accounting Standards Board, or FASB, Emerging Issues Task Force, or EIFT, Issue No. 01-9, ACCOUNTING FOR CONSIDERATION GIVEN BY A VENDOR TO A CUSTOMER (INCLUDING A RESELLER OF THE VENDOR'S PRODUCT), or EITF No. 01-9, which provides guidance on the application of generally accepted accounting principles to selected recognition issues on PAYMENTS FROM A VENDOR TO A CUSTOMER.

SALES COMMISSION COSTS

We expense the costs of sales commission as incurred. We incurred $1,137,156 and $239,410 of sales commission expenses for the years Ended June 30, 2008 and 2007, respectively.

INCOME TAXES

We adopted the provisions of FASB interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes -- an interpretation of FASB statement No. 109," which prescribes a recognition threshold and measurement process for recording in the financial statements, uncertain tax positions taken or expected to be taken in a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained.

We recognize federal and state tax liabilities or assets based on our estimate of taxes payable to or refundable by tax authorities in the current fiscal year. We also recognize federal and state tax liabilities or assets based on our estimate of 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. A valuation allowance is required when it is more likely than not that we will not be able to realize all or a portion of our deferred tax assets.

The significant component of the deferred tax asset (liability) at June 30, 2008 and 2007 was federal net operating loss carry-forward in the amount of approximately $2,034,000 and $2,934,000, respectively, based on federal tax rate of 34%. SFAS No. 109 requires a valuation allowance to be recorded when it is more likely than not that some or all of the deferred tax assets will not be realized. At June 30, 2008 and 2007, management believes that it is more likely than not that most of the deferred tax assets will not be realized, and valuation allowances for the full amount of the net deferred tax asset were established to reduce the deferred tax assets to zero based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible. As of June 30, 2008, we have federal net operating loss carryforwards of approximately

$5,983,000 and state net operating loss carryforwards of approximately $1,676,000 for income tax purposes with application of IRC Section 382 limitation on net operating losses as result of the Company's ownership change in prior period. The Federal and state net operating loss carryforwards will begin to expire from 2009 to 2026 and 2009 to 2016, respectively.

EARNINGS PER SHARE

We report earnings per share in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share". Basic earning per share is computed using the weighted average number of shares outstanding during the fiscal year. Diluted earnings per share include the potentially dilutive effect of outstanding common stock options and warrants which are convertible to common shares.

On January 8, 2008, a 1 for 70 reverse stock split was implemented in connection with the reincorporation, under which each shareholder received one share for each 70 shares held. As result of the reverse stock split, a conversion was made to the weighted average number of shares outstanding for the fiscal years of 2008, 2007 and 2006 that took into consideration the effect of a reverse split on the total number of shares outstanding, in order to compare the current weighted average number of shares outstanding to its historical numbers in a consistent form of valuation. In order to adjust a weighted average number of shares outstanding of the Company, the pre-split outstanding shares were divided by the split ratio.

CONCENTRATIONS OF CREDIT RISK

We extend credit to our customers and perform ongoing credit evaluations of such customers. We evaluate our accounts receivable on a regular basis for collectability and provides for an allowance for potential credit losses as deemed necessary.

Substantially all of our revenues are derived from sales of wireless data products. Any significant decline in market acceptance of our products or in the financial condition of our existing customers could impair our ability to operate effectively.

A significant portion of our revenue is derived from a small number of customers. Three customers accounted for 37.0%, 34.3%, and 13.3% of total revenues for the year ended June 30, 2008, and had related account receivables in the amount of $611,820, $3,250,000, and $0, or 13.5%, 71.7% and 0% of total account receivables at June 30, 2008, respectively. For the year ended June 30, 2007, two customers accounted for 41.2% and 38.6% of revenues and had related accounts receivable in the amount of $12,025 and $1,800, or 26.8% and 4.0% of total accounts receivable at June 30, 2007, respectively.

We purchase our wireless products from one design and manufacturing company located in South Korea. If this company were to experience delays, capacity constraints or quality control problems, product shipments to our customers could be delayed, or our customers could consequently elect to cancel the underlying product purchase order, which would negatively impact our revenue. We purchased wireless data products in the amount of $27,090,347 and $7,565,040 for the years ended June 30, 2008 and 2007, respectively, and had related accounts payable of $3,697,893 and $3,875 at June 30, 2008 and 2007, respectively. However, there were no significant delays, capacity constraints, or quality control problems that negatively impacted the Company's revenue during those fiscal years.

We maintain our 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, we do not anticipate any loss on excess deposits.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In July 2006, the FASB issued FASB interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes -- an interpretation of FASB statement No. 109," which prescribes a recognition threshold and measurement process for recording in the financial statements, uncertain tax positions taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on the derecognizing, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. We have currently adopted and evaluated the impact, if any, that FIN 48 will have on our financial statements. FIN 48 is not expected to have a material impact on our financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, "FAIR VALUE MEASUREMENTS". This standard provides guidance for using fair value to measure assets and liabilities. The standard also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, but does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. There are numerous previously issued statements dealing with fair values that are amended by SFAS No. 157. SFAS No. 157 is not expected to have a material impact on our financial statements.

In February 2007, the FASB issued SFAS No. 159, THE FAIR VALUE OPTION FOR FINANCIAL ASSETS AND FINANCIAL LIABILITIES--INCLUDING AN AMENDMENT OF FASB STATEMENT NO. 115. SFAS No. 159 permits companies to choose to measure certain financial instruments and other items at fair value. Most of the provisions in SFAS 159 are elective; however the amendment to SFAS 115, ACCOUNTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES, applies to all entities with available-for-sale securities. The fair value option established by SFAS 159 permits all entities to choose to measure eligible items at fair value at specified election dates. The standard requires that unrealized gains and losses are reported in earnings for items measured using the fair value option at each subsequent reporting date. SFAS No. 159 is effective for the Company beginning in the first quarter of fiscal year 2009. SFAS No. 159 and the amendments to SFAS 115 are not expected to have a material impact on our financial statements.

In June 2007, the FASB ratified Emerging Issues Task Force ("EITF") 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities ("EITF 07-3"). EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007. EITF 07-3 is not expected to have a material impact on our financial statements.

In December 2007, the FASB issued Statement No. 141 (revised), Business Combinations ("SFAS No. 141(R)"). The standard changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. SFAS No. 141(R) is not expected to have a material impact on our financial statements.

In December 2007, the FASB issued Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 ("SFAS No. 160"). The standard changes the accounting for noncontrolling (minority) interests in consolidated financial statements including the requirements to classify noncontrolling interests as a component of consolidated stockholders' equity, and the elimination of "minority interest" accounting in results of operations with earnings attributable to noncontrolling interests reported as part of consolidated earnings. Additionally, SFAS No. 160 revises the accounting for both increases and decreases in a parent's controlling ownership interest. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. SFAS No. 160 is not expected to have a material impact on our financial statements.

There are no other accounting standards issued as of September 22, 2008 that are expected to have a material impact on our consolidated financial statements.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2008 and 2007 consisted of receivables from customers in the amounts of $4,534,069 and $44,915, respectively. The increase was primarily due to a single customer, representing 72% of the total accounts receivable, whose purchase order was shipped on June 30, 2008.

NOTE 5 - PREPAID EXPENSES

Prepaid expenses at June 30 consisted of the following:

	2008	2007
Prepaid insurance	$ 2,725	$ 244
Prepaid marketing fee	11,600	--
Prepaid office lease fee	9,105	6,405
TOTAL	$23,430	$ 6,649

NOTE 6 - PREPAID INCOME TAX

Prepaid income tax at June 30 consisted of the following:

	2008	2007
Prepaid income tax expense		
Federal	$296,535	$ --
State	58,858	--
TOTAL	$355,393	$ --

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment at June 30 consisted of the following:

	2008	2007
Computers and software	$ 48,827	$ 38,084
Furniture and fixtures	52,894	11,325
	101,721	49,409
Less accumulated depreciation	(33,709)	(23,191)
TOTAL	$ 68,012	$ 26,218

NOTE 8 - INTANGIBLE ASSETS

Intangible assets at June 30 consisted of the following:

	2008	2007
CDG Certifications	$ --	$ 171,280
Less accumulated amortization	--	(41,016)
TOTAL	$ --	$ 130,264

CDG test certifications are required to launch and market new CDMA wireless data products with carriers in the countries located in North America, the Caribbean, and South America. Certifications are issued as being a qualifier of CDG1 (CDMA Development Group Stage 1), CDG 2 and CDG 3. The estimated life of CDG test certifications are three years, based on the life of the CDMA wireless data product. Certifications have a life of three years or the life of the CDG test.

As of June 30, 2008, we wrote off certifications in the amount of $171,280 as these certifications were deemed impaired due to their inability to continue to generate income from operations and positive cash flow in future periods.

NOTE 9 - OTHER ASSETS

Security deposits at June 30 consisted of the following:

	2008	2007
Lease deposit, corporate housing	709	709
Lease deposit, administrative office	14,003	4,170
Utility deposit	282	282
Other deposit	417	--
TOTAL	$15,411	$ 5,161

NOTE 10 - NOTES PAYABLE TO STOCKHOLDERS

Notes payable as of June 30, 2008 and 2007 consisted of the following:

	2008	2007
Non-interest bearing note	$ 334,000	$ 434,000
Total	334,000	434,000
Less current portion	(334,000)	(434,000)
TOTAL	$ --	$ --

Our Korea-based subsidiary, ARG, has been inactive since August 2003. On October 30, 2007, the Board of Directors approved the dissolution of ARG. As a part of the dissolution, we assumed a note payable of ARG of $434,000. During the year ended June 30, 2008, we repaid $100,000, and the remaining balance of the note amounted to $334,000 at June 30, 2008.

NOTE 11 - ACCRUED LIABILITIES

Accrued liabilities at June 30 consisted of the following:

	2008	2007
Salaries payable	$135,000	$ 94,418
Accrued professional fees payable	31,500	50,217
Tax payable	689,421	34,390
Other accrued liabilities	19,125	--
TOTAL	$875,046	$179,025

The increase in accrued liabilities for the year ended June 30, 2008 was primarily due to an increase in tax payable, which was estimated federal and state income tax at $685,000 for the fourth quarter of the fiscal 2008.

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NOTE 12 - COMMITMENTS AND CONTINGENCIES

LEASES

We lease our administrative facilities under a non-cancelable operating lease that expires on August 31, 2011. In addition to the minimum annual rental commitments, the lease provides for periodic cost of living increases in the base rent and payment of common area costs. Rent expense related to the operating lease was $62,848 and $59,420 for the years ended June 30, 2008 and 2007, respectively.

We lease a corporate housing facility for our vendors under a non-cancelable operating lease that expires on October 2, 2008. Rent expense related to the operating lease was $17,829 and $2,770 for the years ended June 30, 2008 and 2007, respectively.

We lease one automobile under an operating lease that expires on July 22, 2009. The related lease expense was $6,452 and $6,795 for the years ended June 30, 2008 and 2007, respectively.

Future minimum lease payments under operating leases as of June 30, 2008 are as follows:

PAYMENTS DUE BY JUNE 30,

LEASE	2009	2010	2011	2012	TOTAL
Administrative office facility	$ 91,050	$109,260	$109,260	$ 18,210	$327,780
Corporate housing facility	4,701	--	--	--	4,701
TOTAL OBLIGATION	$ 95,751	$109,260	$109,260	$ 18,210	$332,481

LITIGATION

We are from time to time involved in certain legal proceedings and claims arising in the ordinary course of business. Management believes that there is no legal proceeding that has a material adverse effect on our financial condition for the year ended June 30, 2008. There is no legal proceeding that is pending or terminated for the 4th quarter of the fiscal year of 2008.

CO-DEVELOPMENT, CO-OWNERSHIP AND SUPPLY AGREEMENT

Our facility is located in San Diego, California. Manufacturing of our products has been contracted out to C-Motech Co. Ltd. ("C-Motech"), located in South Korea.

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In January 2005, we entered into an agreement with C-Motech for the manufacture of the products. Under the manufacturing and supply agreement, C-Motech provides us 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 our CDMA wireless data products in countries in North America, the Caribbean, and South America. Furthermore, the Agreement provides that we are responsible for marketing, sales, field testing, and certifications of these products to wireless service operators and other commercial buyers within a designated territory, and C-Motech is responsible for design, development, testing, 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 we have the exclusive right 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 with automatic renewable of additional 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.

OFFICER EMPLOYMENT AGREEMENT

On September 8, 2006, we entered into a renewable two-year employment agreement with our president. The annual salary for the officer is $150,000.

NOTE 13 - STOCKHOLDERS' EQUITY

COMMON STOCK

We authorized 50,000,000 shares of Common Stock, par value of $0.001 per share, and Common Stock of 13,231,491 was issued and outstanding as of June 30, 2008 and 2007. We authorized 10,000,000 shares of Preferred Stock, par value of $0.001 per share, and no Preferred Stock was issued or outstanding as of June 30, 2008 and 2007. No dividends have been declared or paid during fiscal years 2008 and 2007.

STOCK ISSUANCES & REPURCHASES

For the years ended June 30, 2008, 2007 and 2006, we completed the following common stock transactions:

- November 11, 2005
  - We converted our $30,000 note payable to the shareholder to Common Stock. As a result, we issued 6,000,000 shares to a stockholder at $0.005 per share. The Common Stock share price approximated its fair market value at the date of the conversion and, as a result, no compensation expense was required or booked during the year ended June 30, 2006.
  - We issued 36,000,000 shares to unaffiliated investors at $0.0085 per share in the amount of $305,000. The Common Stock share price approximated its fair market value at the date of the issuance and, as a result, no compensation expense was required or booked during the year ended June 30, 2006.
- May 15, 2006 - We purchased 20,000,000 shares of our Common Stock from our former Chief Executive Officer and board member, Hajin Jhun, at $0.005 per share, or the price purchased by Mr. Jhun. The purchased share price approximated its fair market value at the date of the purchase and, as a result, no compensation expense was required or booked for the year ended June 30, 2006.

- June 27, 2006

- We issued 1,000,000 shares to a stockholder holding a $10,000 note payable. These shares were converted at $0.01 per share for $10,000. The converted share price approximated its fair market value at the date of the conversion and, as a result, no compensation expense was required or booked for the year ended June 30, 2006.
- We issued 66,000,000 shares to an unaffiliated investor approximately at $0.0091 per share in the gross proceeds of $600,000.00. The Common Stock share price approximated its fair market value at the date of the issuance and a result, no compensation expense was required or booked for the year ended June 30, 2006.

- October 18, 2006 - We issued 15,000,000 shares of our Common Stock to an unaffiliated investor for $0.0091 per share, total valued at $136,364. The Common stock share price approximated its fair market value at the date of the issuance and, as a result, no compensation expense was required or booked for the year ended June 30, 2007.

- On April 27, 2007 - We issued an additional 29,000,000 shares of our Common Stock to the unaffiliated investor for $0.0091 per share, total valued at $263,636. The common stock share price approximated its fair market value at the date of the issuance and, as a result, no compensation expense was required or booked for the year ended June 30, 2007.

- On January 8, 2008, the reverse stock split was implemented in connection with the reincorporation, under which the shareholders will receive one share of Franklin-Nevada for each 70 shares held in Franklin-California. As result of the reverse stock split, the 50,000,000 shares of Common stock, par value of $0.001 per share, were authorized, and the 13,231,491 shares were issued and outstanding as of June 30, 2008.

We believe the foregoing issuances of Common Stock were exempt from the registration requirements of the Securities Act of 1933, as amended, by reason of Section 4(2) thereof.

NOTE 14 - INCOME TAXES

We adopted the provisions of FASB interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes -- an interpretation of FASB statement No. 109," which prescribes a recognition threshold and measurement process for recording in the financial statements, uncertain tax positions taken or expected to be taken in a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained.

We recognize federal and state tax liabilities or assets based on our estimate of taxes payable to or refundable by tax authorities in the current fiscal year. We also recognize federal and state tax liabilities or assets based on our estimate of 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. A valuation allowance is required when it is more likely than not that we will not be able to realize all or a portion of our deferred tax assets.

Income tax provision from continuing operations for the years ended June 30, 2008 and 2007 consists of the following:

	YEAR ENDED JUNE 30,	
	2008	2007
Current income taxes expense:		
Federal	$433,067	$ 26,409
State	156,382	8,781
	589,449	35,190
Deferred income taxes expense (benefits):	--	--
Provision for income taxes	$589,449	$ 35,190

The provisions for income taxes reconcile to the amount computed by applying effective federal statutory income tax rate to income before provision for income taxes as follows:

	YEAR ENDED JUNE 30,			
	2008	%	2007	%
Federal tax provision, at statutory rate	$ 1,532,163	34.0	$ 453,998	34.0
State tax, net of fed tax benefit	329,327	7.3	118,358	8.8
Nondeductible expenses	5,957	0.1	5,217	0.4
Credit	(23,291)	(0.5)	--	--
Valuation allowance	(1,213,017)	(26.9)	(546,519)	(40.9
Others	(41,690)	(0.9)	4,136	0.3
Provision for income taxes	$ 589,449	13.1	$ 35,190	2.6

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets are as follows:

	YEAR ENDED JUNE 30	
	2008	2007
Current deferred tax asset (liabilities):		
Net operating losses	$ 170,883	$ --
Other, net	16,493	151,868
Non-current deferred tax assets (liabilities):		
Net operating losses	2,011,633	3,285,042
Credit	--	30,996
Other, net	(4,477)	(60,357)
Total deferred tax assets	2,194,532	3,407,549

Less valuation allowance	(2,194,532)	(3,407,549)
Net deferred tax asset	$ --	$ --

The significant component of the deferred tax asset (liability) at June 30, 2008 and 2007 was federal net operating loss carry-forward in the amount of approximately $2,034,000 and $2,934,000, respectively, based on federal tax rate of 34%.

SFAS No. 109 requires a valuation allowance to be recorded when it is more likely than not that some or all of the deferred tax assets will not be realized. At June 30, 2008 and 2007, we established a full valuation allowance on our net deferred tax assets based on the available evidences, both positive and negative, to determine whether valuation allowance is needed. Based on our losses before income taxes in the past years before the fiscal year of 2007 and our estimated losses in the future three years, management believed that it was more likely than not that most of the deferred tax assets will not be realized. Valuation allowances for the full amount of the net deferred tax asset were established to reduce the deferred tax assets to zero based on the level of historical taxable income and projections for future taxable income over the period of three years. At June 30, 2008, the established valuation allowance for the net deferred tax asset was decreased by $1,213,017.

As of June 30, 2008, we have federal net operating loss carryforwards of approximately $5,983,000 and state net operating loss carryforwards of approximately $1,676,000 for income tax purposes after application of IRC Section 382 limitation on net operating losses as result of the Company's ownership change in prior period. The Federal and state net operating loss carryforwards will begin to expire from 2009 to 2026 and 2009 to 2016, respectively.

NOTE 15 - RELATED PARTY TRANSACTIONS

We purchased CDMA wireless data products in the amount of $27,090,347, or 100.0% of total purchases, from C-Motech Co. Ltd., for the year ended June 30, 2008 and had related accounts payable of $3,697,893 as of June 30, 2008. We also had account receivable of $151,750 in connection with marketing development fund as of June 30, 2008. C-Motech owns 3,370,356 shares, or 25.5%, of our Common Stock and Jaeman Lee, Chief Executive Officer of C-Motech Co. Ltd., has served as a director of the Company since. September 2006. Jaeman Lee must abstain from voting on any matters where the interests or benefits of C-Motech conflict or appear to conflict with our interests or benefits.

NOTE 16 - SUBSEQUENT EVENTS

We plan to adopt an incentive stock ("ISO") option and nonstatutory stock option ("NSO") for key employees and directors of the Company, to encourage a proprietary interest in the Company, to encourage such key employees to remain in the employ of the Company, and to attract new employees with outstanding qualifications.

The option plans will be administered by the Board of the Company in order to obtain required approvals and qualifications as planned. However, as of

September 22, 2008, the Stock Option Plan has not been adopted.