FRANKLIN WIRELESS CORP
Form 10-Q
May 15, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009

OR

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
(NO FEE REQUIRED)
FOR THE TRANSITION PERIOD FROM __________ TO ___________.

COMMISSION FILE NUMBER: 0-11616

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

NEVADA	95-3733534
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
5440 MOREHOUSE DRIVE, SUITE 1000, SAN DIEGO, CALIFORNIA	92121
(Address of principal executive offices)	(Zip code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (858) 623-0000

Indicated 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 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [ ]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer |_| Accelerated filer |_| Non-accelerated filer |_|
Smaller reporting company |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 Registrant has 13,231,491 shares of common stock outstanding as of May 15, 2009

FRANKLIN WIRELESS CORP.
INDEX TO QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FRANKLIN WIRELESS CORP.
BALANCE SHEETS

	(UNAUDITED) MARCH 31,	JUNE 30,

	2009	2008
ASSETS		
Current Assets:		
Cash	$ 5,243,853	$ 6,172,5
Short-term investments	329,513	
Accounts receivable	862,423	4,534,0
Prepaid income tax	--	355,3
Inventories	9,196,891	72,1
Advanced payments	81,900	
Prepaid expenses	3,410	23,4
Total current assets	15,717,990	11,157,6
Property and equipment, net	112,682	68,0
Other assets	11,241	15,4
TOTAL ASSETS	$15,841,913	$11,241,0
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 8,844,760	$ 4,047,6
Advanced payment from customers	1,600	390,0
Accrued liabilities	139,839	875,0
Deferred rent payable	17,043	
Notes payable to a stockholder	--	334,0
Total current liabilities	9,003,242	5,646,6
Stockholders' Equity:		
Preferred stock, par value $0.001 per share, authorized 10,000,000 shares; no preferred stock issued or outstanding as of March 31, 2009 and June 30, 2008.	--	
Common stock, par value $0.001 per share, authorized 50,000,000 shares; 13,231,491 shares issued and outstanding as of March 31, 2009 and June 30, 2008	13,232	13,2
Additional paid-in capital	5,016,161	5,016,1
Retained earnings	1,809,278	564,9
Total stockholders' equity	6,838,671	5,594,3
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$15,841,913	$11,241,0

See accompanying notes to unaudited financial statements.

FRANKLIN WIRELESS CORP.
STATEMENTS OF OPERATIONS
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,		NINE MONTHS MARCH 3
	2009	2008	2009
Net sales	$ 3,312,551	$ 7,395,200	$14,180,859
Cost of goods sold	2,522,641	5,619,995	10,429,760
Gross profit	789,910	1,775,205	3,751,099
Operating expenses:			
Research and development	30,000	--	30,000
Selling, general, and administrative	502,272	873,869	2,119,606
Total operating expenses	532,272	873,869	2,149,606
Income from operations	257,638	901,336	1,601,493
Other income (expense):			
Forgiveness of debt	--	--	33,400
Interest income	14,914	33,513	71,283
Other income (expense)	576	256	799
Total other income (expense), net	15,490	33,769	105,482
Net income before income taxes	273,128	935,105	1,706,975
Provision for income taxes	208,265	203,638	462,653
Net income	$ 64,863	$ 731,467	$ 1,244,322
Basic earnings per share	$ 0.01	$ 0.06	$ 0.09
Diluted earnings per share	$ 0.01	$ 0.06	$ 0.09
Weighted average common shares outstanding - basic	13,231,491	13,231,491	13,231,491
Weighted average common shares outstanding - diluted	13,231,491	13,231,491	13,231,491

See accompanying notes to unaudited financial statements.

FRANKLIN WIRELESS CORP.
STATEMENTS OF CASH FLOWS
(UNAUDITED)

NINE MONTHS ENDED

	MARCH 31, 2009	MARCH 31, 2008
CASH FLOWS FROM OPERATIONS ACTIVITIES:		
Net income	$ 1,244,322	$ 3,183,992
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	14,269	6,901
Amortization of intangible assets	--	42,820
Bad debt	315	2,200
Forgiveness of debt	(33,400)	--
Changes in operating assets and liabilities:		
Accounts receivable	3,671,331	(2,248,330)
Prepaid income taxes	355,393	--
Inventory	(9,124,729)	(5,868)
Advanced payments	(81,900)	--
Prepaid expense	20,020	5,992
Other assets	4,170	--
Accounts payable	4,797,109	2,672,046
Advance payment from customers	(388,400)	(354,500)
Accrued liabilities	(735,207)	(91,890)
Deferred rent payable	17,043	--
Net cash provided by (used in) operating activities	(239,664)	3,213,363
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(58,939)	(49,615)
Short-term investments	(329,513)	--
Net cash used in investing activities	(388,452)	(49,615)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of note payable	(300,600)	(100,000)
Receipt of stock subscription receivable	--	11,395
Net cash used in financing activities	(300,600)	(88,605)
Net increase (decrease) in cash and cash equivalents	(928,716)	3,075,143
Cash and cash equivalents, beginning of period	6,172,569	2,477,593
Cash and cash equivalents, end of period	$ 5,243,853	$ 5,552,736
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ --	$ --
Income taxes	$ 693,047	$ 259,842

See accompanying notes to unaudited financial statements.

FRANKLIN WIRELESS CORP.
NOTES TO UNAUDITED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and are presented in accordance with the requirements of Form 10-Q. The balance sheet is unaudited as of March 31, 2009 and audited as of June 30, 2008. The statement of operations is unaudited for the three months and nine months ended March 31, 2009 and 2008. The statement of cash flows is unaudited for the nine months ended March 31, 2009, and 2008. In the opinion of management, the unaudited financial statements included herein contain all adjustments, including normal recurring adjustments, considered necessary to present fairly the financial position, the results of operations and cash flows of the Company for the periods presented. These unaudited interim financial statements should be read in conjunction with the financial statements and notes thereto for the fiscal year ended June 30, 2008 included in the Company's Form 10-K, filed on September 26, 2008.

The accounting policies used in preparing these financial statements are the same as those described in the Company's Form 10-K with the exception of new accounting pronouncements adopted in fiscal year 2009. The operating results or cash flows of the interim periods presented herein are not necessarily indicative of the results to be expected for any other interim period or the full year.

NOTE 2 - BUSINESS OVERVIEW

The Company designs and sells broadband high speed wireless data communication products such as third generation ("3G") and fourth generation ("4G") wireless modules and modems. The Company focuses 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 the Company believes represents a growing market.

The Company markets its products through two channels: directly to wireless operators, and indirectly through strategic partners and distributors. The Company's customer base extends from the United States to the Caribbean and South American countries. The Company's Universal Serial Bus ("USB") modems are certified by Sprint, Cellular South, NTELOS and ACS in the United States, by IUSACELL in Mexico, by Telefonica and Movilnet in Venezuela, and by TSTT in Trinidad and Tobago. The Company has strategic marketing relationships with several of these customers.

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. The Company identifies its operating segments based on how management internally evaluates separate financial information, business activities and management responsibility. The Company operates 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.

CASH AND CASH EQUIVALENTS

For purposes of the statements of cash flow, the Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

SHORT-TERM INVESTMENTS

The Company considers all investments purchased with original maturities greater than three months but less than one year to be short-term investments.

REVENUE RECOGNITION

The Company recognizes 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, the Company recognizes revenues from product sales upon shipment of the product to the customers. The Company does not allow the right of return on product sales but warrant the products over one year from the shipment. The Company may maintain an allowance for doubtful accounts for potentially estimated losses related to customer receivable balances. Estimates are developed by using standard quantitative measures based on historical losses, adjusting for current economic conditions and, in some cases, evaluating specific customer accounts for risk of loss. The establishment of reserves requires the use of judgment and assumptions regarding the potential for losses on receivable balances. Though the Company considers these balances adequate and proper, changes in economic conditions in specific markets in which the Company operates could have a material effect on reserve balances required.

INVENTORIES

The Company's inventories are made up of finished goods and are stated at the lower of cost or market, cost being determined on a first-in, first-out basis. The Company assesses the inventory carrying value and reduces it, if necessary, to its net realizable value based on customer orders on hand, and internal demand forecasts using management's best estimates given information currently available. The Company's customer demand is highly unpredictable, and can fluctuate significantly caused by factors beyond the control of the Company. The Company may maintain an allowance for inventories for potential excess and obsolete inventories and inventories that are carried at costs that are higher than their estimated net realizable values.

As of March 31, 2009, the Company's inventories increased significantly due to a one time large purchase of the CMU-300 WIMAX plus CDMA USB modems that the Company placed based on the Company's internal demand forecasts using management's best estimates available.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. The Company provides for depreciation using the straight-line method over the estimated useful lives as follows:

Computers and software	5 years
Furniture and fixtures	7 years

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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.

VALUATION ON LONG-LIVED ASSETS

In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for Impairment on Disposal of Long-lived Assets", the Company reviews 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. The Company considers the carrying value of assets may not be recoverable based upon its 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 the Company's 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.

As of March 31, 2009, the Company is not aware of any events or changes in circumstances that would indicate that the long-lived assets are impaired.

WARRANTIES

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

RESEARCH AND DEVELOPMENT EXPENSES

The Company requires all research and development expenses to be expensed in the period in which they occur. Nonrefundable advance payment for goods or services that will be used or rendered for future research and development activities will be recognized as an expense as the goods are delivered or the related services are performed in accordance with Emerging Issues Task Force Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities," or EITF No. 07-3. The Company will continue to evaluate whether the goods to be delivered or services to be rendered. If the Company does not expect the goods to be delivered or services to be rendered, the capitalized advance payment will be charged to expense.

SHIPPING AND HANDLING COST

Most of shipping and handling costs are paid by the customers directly to the shipping companies. As a result, the Company does not collect nor incur shipping and handling costs.

INCOME TAXES

The Company 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 than 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.

The Company recognizes federal and state tax liabilities or assets based on its estimate of taxes payable to or refundable by tax authorities in the current fiscal year. The Company also recognizes federal and state tax liabilities or assets based on its 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 the Company will not be able to realize all or a portion of our deferred tax assets.

Income tax provision from continuing operations for the nine months ended March 31, 2009 and 2008 consists of the following:

	(UNAUDITED) MARCH 31, 2009	(UNAUDITED) MARCH 31, 2008
Current income taxes expense:		
Federal	$329,945	$179,602
State	132,708	80,240
	462,653	259,842
Deferred income taxes expense (benefits):	--	--
PROVISION FOR INCOME TAXES	$462,653	$259,842

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:

	(UNAUDITED) NINE MONTHS ENDED MARCH		
	2009	%	2008
Federal tax provision, at statutory rate	$ 556,571	34.0	$ 1,170,9
State tax, net of fed tax benefit	145,687	8.9	281,6
Nondeductible expenses	3,763	0.2	1,0
Valuation allowance	(243,368)	(14.9)	(1,202,0
Others	--	--	8,2
Provision for income taxes	$ 462,653	28.2	$ 259,8

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 the deferred tax assets at March 31, 2009 and June 30, 2008 consisted of the following:

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	(UNAUDITED) MARCH 31, 2009	JUNE 30, 2008

Current deferred tax asset (liabilities):		
Net operating losses	$ 135,622	$ 170,883
State tax	(44,849)	--
Other, net	(29,988)	16,493
Non-current deferred tax assets (liabilities):		
Net operating losses	1,911,273	2,011,633
Other, net	(20,893)	(4,477)
Total deferred tax assets	1,951,165	2,194,532
Less valuation allowance	(1,951,165)	(2,194,532)
Net deferred tax asset	$ --	$ --

The significant component of the deferred tax asset (liability) at March 31, 2009 and June 30, 2008 was federal net operating loss carry-forward in the amount of approximately $1,898,000 and $2,034,000, 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 March 31, 2009, and June 31, 2008, 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 March 31, 2009, the established valuation allowance for the net deferred tax asset was decreased by $243,367. As of March 31, 2009, the Company has federal net operating loss carryforwards of approximately $5,584,000 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.

CONCENTRATION OF RISK

The Company extends credit to its customers and performs ongoing credit evaluations of such customers. The Company evaluates its accounts receivable on a regular basis for collectability and provides for an allowance for potential credit losses as deemed necessary.

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

A significant portion of the Company's revenue is derived from a small number of customers. Four customers accounted for $9,335,380, or 65.8% of total revenues during the nine months ended March 31, 2009, and had related account receivables of $675,000, or 78.3% of the total account receivable of $862,423, at March 31, 2009.

The Company purchases its wireless products from one design and manufacturing company located in South Korea. If the design and manufacturing company were to experience delays, capacity constraints or quality control problems, product shipments to the Company's customers could be delayed, or its customers could consequently elect to cancel the underlying product purchase order, which would negatively impact the Company's revenue. However, there were no significant delays,

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capacity constraints, or quality control problems that negatively impacted the Company's revenue for the nine months ended March 31, 2009 and 2008. For those periods, the Company purchased approximately $19,247,678 and $18,254,402, respectively, and had related accounts payable of $8,825,572 and $2,394,700 at March 31, 2009 and 2008, respectively. In spite of the decrease in sales for the nine months ended March 31, 2009 compared to the corresponding period of 2008, the Company's purchases remained similar for those periods due to a one time large purchase of the CMU-300 WIMAX plus CDMA USB modem.

The Company maintains its cash accounts with established commercial banks. Such cash deposits periodically exceed the Federal Deposit Insurance Corporation insured limit of $250,000 per each depositor, per insured bank. As of March 31, 09, the Company has two deposits that exceeded the insured limit of $250,000 by approximately $4,993,853 and $79,513, respectively. However, the Company does not anticipate any loss on excess deposits.

NOTE 4 - BALANCE SHEET DETAILS

SHORT-TERM INVESTMENTS

Short-term investment at March 31, 2009 and June 30, 2008, consisted of the certificate of deposit of $329,513 with original maturity of 12 months.

ACCOUNT RECEIVABLE

Accounts receivable at March 31, 2009 and June 30, 2008, consisted of receivables from customers in the amounts of $862,423 and $4,534,069, respectively.

PREPAID INCOME TAX

Prepaid income tax at March 31, 2009 and June 30, 2008 consisted of the following:

	(UNAUDITED) MARCH 31, 2009	JUNE 30, 2008
Federal	$ -	$ 296,535
Sate	-	58,858
TOTAL	$ -	$ 355,393

INVENTORIES

Inventories at March 31, 2009 and June 30, 2008 consisted of the following:

	(UNAUDITED) MARCH 31, 2009	JUNE 30, 2008
Inventories	9,196,891	$ 72,162
TOTAL	9,196,891	$ 72,162

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At March 31, 2009, the increase in inventories was primarily due to a one time large purchase of the CMU-300 WIMAX plus CDMA USB modem that the Company placed based on the Company's internal demand forecasts using management's best estimates available.

ADVANCED PAYMENTS

Advanced payments at March 31, 2009 and June 30, 2008 consisted of the following:

	(UNAUDITED) MARCH 31, 2009	JUNE 30, 2008
Advanced payments to vendor	$ 11,900	$ -
Nonrefundable advance payment	70,000	-
TOTAL	$ 81,900	$ -

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Nonrefundable advance payment of $70,000 for goods or services that will be used or rendered for future research and development activities was deferred and capitalized in accordance with Emerging Issues Task Force Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities", or EITF No. 07-3. The amount will be recognized as an expense as the goods are delivered or the related services are performed. The Company will continue to evaluate whether the goods to be delivered or services to be rendered. If the Company does not expect the goods to be delivered or services to be rendered, the capitalized advance payment will be charged to expense.

PREPAID EXPENSES

Prepaid expenses at March 31, 2009 and June 30, 2008 consisted of the following:

	(UNAUDITED) MARCH 31, 2009	JUNE 30, 2008
Prepaid insurance	$ 1,892	$ 2,725
Prepaid marketing fee	1,480	11,600
Prepaid professional fee	38	-
Prepaid office lease fee	-	9,105
TOTAL	$ 3,410	$ 23,430

OTHER ASSETS

Other assets at March 31, 2009 and June 30, 2008 consisted of the following:

	(UNAUDITED) MARCH 31, 2009	JUNE 30, 2008
Lease deposit, corporate housing	$ 709	$ 709
Lease deposit, administrative office	9,833	14,003
Utility deposit	282	282
Other deposit	417	417
TOTAL	$ 11,241	$ 15,411

PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2009 and June 30, 2008 consisted of the following:

	(UNAUDITED) MARCH 31, 2009	JUNE 30, 2008
Computers and software	$ 104,330	$ 48,827
Furniture and fixtures	56,330	52,894
	160,660	101,721
Less accumulated depreciation	(47,978)	(33,709)
TOTAL	$ 112,682	$ 68,012

Depreciation expense associated with property and equipment was $14,269 and $6,901 for the nine months ended March 31, 2009 and 2008, respectively.

ACCRUED LIABILITIES

Accrued liabilities at March 31, 2009, and June 30, 2008, consisted of the following:

	(UNAUDITED) MARCH 31, 2009	JUNE 30, 2008
Salaries payable	$ -	$ 135,000
Income tax payable	99,214	689,421
Accrued professional fees payable	5,000	31,500
Sales commission payable	3,000	-
Marketing development fund payable	32,625	19,125
TOTAL	$ 139,839	$ 875,046

DEFERRED RENT PAYABLE

Deferred Rent Payable at March 31, 2009, and June 30, 2008, consisted of the following:

	(UNAUDITED) MARCH 31, 2009	JUNE 30, 2008
Deferred rent payable	$ 17,043	$ -
TOTAL	$ 17,043	$ -

Deferred rent payable is the sum of the difference between a monthly rent payment and the monthly rent expense of an operating lease of the Company that contains escalated payments in future periods. The rent expense is the sum of all rent payments over the term of the lease divided by the number of periods contained in the lease otherwise known as straight-line amortization. This rent expense amount differs from the monthly rent payments, which is deferred rent payable.

NOTES PAYABLE TO STOCKHOLDERS

Notes payable at March 31, 2009, and June 30, 2008, consisted of the following:

	(UNAUDITED) MARCH 31, 2009	JUNE 30, 2008
Non-interest bearing note	$ -	$ 334,000
Total	-	334,000
Less current portion	-	(334,000)
TOTAL	$ -	$ -

The Company's Korea-based subsidiary, ARG, has been inactive since August 2003. On October 30, 2007, the Board of Directors approved the dissolution of ARG, and the Company assumed a note payable of ARG of $434,000 as a part of the dissolution. The remaining balance of the note amounted to $334,000 as of June 30, 2008, and the Company paid in full the note of $300,600, net of a 10% discount of $33,400, for the nine months ended March 31, 2009, and the discount of $33,400 was presented as a forgiveness of debt.

NOTE 5 - COMMITMENTS AND CONTINGENCIES

OPERATING LEASE

The Company leases its administrative facilities under a non-cancelable operating lease that expires on August 31, 2011, and its principal future obligations and commitments as of the expiration date are approximately $260,000. 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 $80,778 and $47,221 for the nine months ended March 31, 2009 and 2008, respectively.

The Company leases its corporate housing facility under a non-cancelable operating lease that expires on April 30, 2009 for its vendor, and its principal future obligations and commitments as of the expiration date total $1,567. Rent expense related to the operating lease was $14,023 and $13,203 for the nine months ended March 31, 2009 and 2008, respectively.

The Company leases one automobile under an operating lease that expires on July 22, 2009, and its principal future obligations and commitments as of the expiration date is approximately $2,150. Lease expense was $4,839 and $4,839 for the nine months ended March 31, 2009 and 2008, respectively.

LITIGATION

From time to time the Company is involved in certain legal proceedings and claims that arise in the normal course of business. Management does not believe that the outcome of these matters will have any material adverse effect on its financial condition.

CO-DEVELOPMENT, CO-OWNERSHIP AND SUPPLY AGREEMENT

The Company's facility is located in San Diego, California. Manufacturing of the Company's products has been contracted out to C-Motech Co. Ltd. ("C-Motech"), located in South Korea.

In January 2005, the Company entered into an agreement with C-Motech for the manufacture of the products. Under the manufacturing and supply agreement, C-Motech provides the Company with services including all licenses, component procurement, final assembly, testing, quality control, fulfillment and after-sale service. The Agreement provides exclusive rights to market and sell CDMA wireless data products in countries in North America, the Caribbean, and South America. Furthermore, the Agreement provides that the Company is responsible for marketing, sales, field testing, and certifications of these products to wireless service operators and other commercial buyers 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 the Company has 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 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. As of May 15, 2009, the agreement is still valid for an additional one year period.

NOTE 6 - EARNINGS PER SHARE

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

NOTE 7 - RECENT ACCOUNTING PRONOUNCEMENTS

In October 2008, the FASB issued Staff Position No. FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active" (FSP 157-3). FSP 157-3 clarifies the application of SFAS 157. The Company believes that FSP 157-3 has no effect on the Company's financial statements at this time.

In March 2009, the Company adopted EITF Issue No. 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities ("EITF No. 07-3"). EITF No. 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 No. 07-3 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007. The Company believes that the adoption of EITF No. 07-3 does not have a material impact on the Company's financial statements at this time.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" ("FSP FAS 115-2/124-2"). FSP FAS 115-2/124-2 requires entities to separate any other-than-temporary impairment of a debt security into two components when there are credit related losses associated with the impaired debt security for which management asserts that it does not have the intent to sell the security, and it is more likely than not that it will not be required to sell the security before recovery of its cost basis. The amount of the other-than-temporary impairment related to a credit loss is recognized in earnings, and the amount of the other-than-temporary impairment related to other factors is recorded in other comprehensive loss. FSP FAS 115-2/124-2 is effective for periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company believes that FSP FAS 115-2/124-2 has no effect on the Company's financial statements at this time.

In April 2009, the FASB issued FSP FAS 157-4, "Determining Fair Value When Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that are Not Orderly" ("FSP FAS 157-4"). Under FSP FAS 157-4, if an entity determines that there has been a significant decrease in the volume and level of activity for the asset or the liability in relation to the normal market activity for the asset or liability (or similar assets or liabilities), then transactions or quoted prices may not accurately reflect fair value. In addition, if there is evidence that the transaction for the asset or liability is not orderly, the entity shall place little, if any weight on that transaction price as an indicator of fair value. FSP FAS 157-4 is effective for periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company believes that FSP FAS 157-4has no effect on the Company's financial statements at this time.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" ("FSP FAS 107-1 and APB 28-1"). FSP FAS 107-1 and APB 28-1 require disclosures about fair value of financial instruments in interim and annual financial statements. FSP FAS 107-1 and APB 28-1 are effective for periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company believes that FSP FAS 107-1 and APB 28-1 have no effect on the Company's financial statements at this time.

There are no other accounting standards issued as of May 15, 2009 that are expected to have a material impact on the Company's financial statements.

NOTE 8 - RELATED PARTY TRANSACTIONS

The Company purchased CDMA wireless data products in the amount of $19,247,678, or 98.5% of total purchases, from C-Motech Co. Ltd., for the nine months ended March 31, 2009 and had related accounts payable of $8,825,572 as of March 31, 2009. C-Motech owns 3,370,356 shares, or 25.5%, of the Company's outstanding Common Stock and Jaeman Lee, Chief Executive Officer of C-Motech Co. Ltd., has served as a director of the Company since September 2006.

NOTE 9 - SUBSEQUENT EVENTS

None.

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

The following discussion should be read in conjunction with the financial statements and notes thereto included in Item 1 of this filing and the financial statements and notes thereto and Management's Discussion and Analysis or results of Operations contained in the Company's Form 10-K filed on September 26, 2008, for the year ended June 30, 2008.

BUSINESS OVERVIEW

Franklin Wireless Corp. designs and sells broadband high speed wireless data communication products such as third generation ("3G") and fourth generation ("4G") wireless modules and modems. The Company focuses 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 the Company believes represents a growing market.

The Company's wireless products are based on Evolution Data Optimized technology ("EV-DO technology") of Code Division Multiple Access ("CDMA"), High-Speed Packet Access technology ("HSPA technology") of Wideband Code Division Multiple Access ("WCDMA), and Worldwide Interoperability for Microwave Access ("WIMAX") based on the IEEE 802.16 standard, which 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.

Since the Company launched 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, the Company has continued to add new features and functionality to its products to enhance value and ease of use that its products provide to customers and end users. In 2008, the Company launched the CGU-628A HSDPA USB modem and CGU-720A HSUPA, which provide a flexible way for users to connect to high-speed downlink and uplink packet access networks, the CDM-650 Stand-alone Revision 0 USB modem, which provides internet connection in remote locations without cable or DSL services, and the CMU-300 WIMAX plus CDMA USB modem.

The Company markets its products through two channels: directly to wireless operators, and indirectly through strategic partners and distributors. The Company's global customer base extends from the United States to the Caribbean and South American countries. The Company's Universal Serial Bus ("USB") modems are certified by Sprint, Cellular South, NTELOS and ACS in the United States, by IUSACELL in Mexico, by Telefonica and Movilnet in Venezuela, and by TSTT in Trinidad and Tobago. The Company has strategic marketing relationships with several of these customers.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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.

CASH AND CASH EQUIVALENTS

For purposes of the statements of cash flow, the Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

SHORT-TERM INVESTMENTS

The Company considers all investments purchased with original maturities greater than three months but less than one year to be short-term investments.

REVENUE RECOGNITION

The Company recognizes 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, the Company recognizes revenues from product sales upon shipment of the product to the customers. The Company does not allow the right of return on product

sales but warrant the products over one year from the shipment. The Company may maintain an allowance for doubtful accounts for potentially estimated losses related to customer receivable balances. Estimates are developed by using standard quantitative measures based on historical losses, adjusting for current economic conditions and, in some cases, evaluating specific customer accounts for risk of loss. The establishment of reserves requires the use of judgment and assumptions regarding the potential for losses on receivable balances. Though the Company considers these balances adequate and proper, changes in economic conditions in specific markets in which the Company operates could have a material effect on reserve balances required.

RESEARCH AND DEVELOPMENT EXPENSES

The Company requires all research and development expenses to be expensed in the period in which they occur. Nonrefundable advance payment for goods or services that will be used or rendered for future research and development activities will be recognized as an expense as the goods are delivered or the related services are performed in accordance with Emerging Issues Task Force Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities", or EITF No. 07-3. The Company will continue to evaluate whether the goods to be delivered or services to be rendered. If the Company does not expect the goods to be delivered or services to be rendered, the capitalized advance payment will be charged to expense.

SHIPPING AND HANDLING COST

Most of shipping and handling costs are paid by the customers directly to the shipping companies. As a result, the Company does not collect nor incur shipping and handling costs.

VALUATION ON LONG-LIVED ASSETS

In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for Impairment on Disposal of Long-lived Assets", the Company reviews 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. The Company considers the carrying value of assets may not be recoverable based upon its 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 the Company's 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.

As of March 31, 2009, the Company is not aware of any events or changes in circumstances that would indicate that the long-lived assets are impaired.

WARRANTIES

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

INCOME TAXES

The Company 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 than 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.

The Company recognizes federal and state tax liabilities or assets based on its estimate of taxes payable to or refundable by tax authorities in the current fiscal year. The Company also recognizes federal and state tax liabilities or assets based on its 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 the Company will not be able to realize all or a portion of our deferred tax assets.

Income tax provision from continuing operations for the nine months ended March 31, 2009 and 2008 consists of the following:

	(UNAUDITED) MARCH 31, 2009	(UNAUDITED) MARCH 31, 2008
Current income taxes expense:		
Federal	$329,945	$179,602
State	132,708	80,240
	462,653	259,842
Deferred income taxes expense (benefits):	--	--
PROVISION FOR INCOME TAXES	$462,653	$259,842

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:

	(UNAUDITED) NINE MONTHS ENDED M		
	2009	%	
Federal tax provision, at statutory rate	$ 556,571	34.0	$
State tax, net of fed tax benefit	145,687	8.9	
Nondeductible expenses	3,763	0.2	
Valuation allowance	(243,368)	(14.9)	
Others	-	-	
Provision for income taxes	$ 462,653	28.2	$

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 the deferred tax assets at March 31, 2009 and June 30, 2008 consisted of the following:

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(UNAUDITED)

	MARCH 31, 2009	JUNE 30, 2
Current deferred tax asset (liabilities):		
Net operating losses	$ 135,622	$ 170,8
State tax	(44,849)	
Other, net	(29,988)	16,4
Non-current deferred tax assets (liabilities):		
Net operating losses	1,911,273	2,011,6
Other, net	(20,893)	(4,4
Total deferred tax assets	1,951,165	2,194,5
Less valuation allowance	(1,951,165)	(2,194,5
Net deferred tax asset	$ --	$

The significant component of the deferred tax asset (liability) at March 31, 2009 and June 30, 2008 was federal net operating loss carry-forward in the amount of approximately $1,898,000 and $2,034,000, 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 March 31, 2009, and June 31, 2008, 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 March 31, 2009, the established valuation allowance for the net deferred tax asset was decreased by $243,367. As of March 31, 2009, the Company has federal net operating loss carryforwards of approximately $5,584,000 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.

RESULTS OF OPERATIONS

The following table sets forth, for the three and nine months ended March 31, 2009 and 2008, selected statements of operations data expressed as a percentage of sales:

	THREE MONTHS ENDED MARCH 31,	
	2009	2008

Net Sales	100.0%	100.0%
Cost of goods sold	76.2%	76.0%
Gross profit	23.8%	24.0%
Operating expenses:		
Research and development expenses	0.9%	
Selling, general and administrative expenses	15.1%	11.8%
Total operating expenses	16.0%	11.8%
Income from operations	7.8%	12.2%
Other income (expense), net	0.5%	0.5%
Net income before income taxes	8.3%	12.7%
Provision for income taxes	6.3%	2.8%
Net income	2.0%	9.9%

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

THREE MONTHS ENDED MARCH 31, 2009
COMPARED TO THREE MONTHS ENDED MARCH 31, 2008

NET SALES

Net sales decreased by $4,082,649, or 55.2%, to $3,312,551 for the three months ended March 31, 2008 from $7,395,200 for the corresponding period of 2008. The overall decrease in sales was primarily due to a mix of decrease in sales and sales price for the Company's "EV-DO technology" products in Caribbean and South American countries, caused by a decline in purchasing power of customers and their currencies. The decrease in sales volume in Caribbean and South American countries was approximately $4,588,000, or 77.2%, for the three months ended March 31, 2009 compared to the corresponding period of 2008. On the other hand, for those periods, net sales in the United States increased by approximately $500,000, or 34.9%, as a result of the Company's continuous efforts to extend its business.

GROSS PROFIT

Gross profit decreased by $985,295, or 55.5%, to $789,910 for the three months ended March 31, 2009 from $1,775,205 for the corresponding period of 2008. The decrease was primarily due to the change in net sales as discussed above. The gross profit in terms of net sales percentage was 23.8% for the three months ended March 31, 2009 compared to 24.0% for the corresponding period of 2008.

RESEARCH AND DEVELOPMENT

Research and development expenses increased by $30,000, or 100.0%, to $30,000 for the three months ended March 31, 2009 from $0 for the corresponding period of 2008. This increase in expenses reflected to maintain or increase the Company's investment in research and development to continue to provide innovative products and services.

SELLING, GENERAL, AND ADMINISTRATIVE

Selling, general, and administrative expenses decreased by $371,597, or 42.5%, to $502,272 for the three months ended March 31, 2009 from $873,869 for the corresponding period of 2008. The decrease was primarily due to approximately $365,000 decrease in marketing expenses for the three months ended March 31, 2009 compared to the corresponding period. Selling, general and administrative expenses as a percentage of revenue are expected to fluctuate in and future quarters depending on the amount of net sales recognized.

OTHER INCOME (EXPENSE), NET

The net of other income (expense) decreased by $18,279, or 54.1%, to $15,490 for the three months ended March 31, 2009 from $33,769 for the corresponding period of 2008. The overall decrease is primarily due to $18,599 decrease in interest income caused by the advanced payment of $1 million paid to C-Motech for the three months ended March 31, 2009.

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NINE MONTHS ENDED MARCH 31, 2009
COMPARED TO NINE MONTHS ENDED MARCH 31, 2008

NET SALES

Net sales decreased by $9,717,583, or 40.7%, to $14,180,859 for the nine months ended March 31, 2009 from $23,898,442 for the corresponding period of 2008. The overall decrease in sales was primarily due to a mix of decrease in sales and sales price for the Company's "EV-DO technology" products in Caribbean and South American countries, caused by a decline in purchasing power of customers and their currencies. The decrease in sales volume in Caribbean and South American countries was approximately $8,759,000, or 53.8%, for the nine months ended March 31, 2009 compared to the corresponding period of 2008.

GROSS PROFIT

Gross profit decreased by $1,898,809, or 33.6%, to $3,751,099 for the nine months ended March 31, 2009 from $5,649,908 for the corresponding period of 2008. The decrease was primarily due to the change in net sales as discussed above. The gross profit in terms of net sales percentage was 26.5% for the nine months ended March 31, 2009 compared to 23.6% for the corresponding period of 2008.

RESEARCH AND DEVELOPMENT

Research and development expenses increased by $30,000, or 100.0%, to $30,000 for the nine months ended March 31, 2009 from $0 for the corresponding period of 2008. This increase in expenses reflected to maintain or increase the Company's investment in research and development to continue to provide innovative products and services.

SELLING, GENERAL, AND ADMINISTRATIVE

Selling, general, and administrative expenses decreased by $213,633, or 9.2%, to $2,119,606 for the nine months ended March 31, 2009 from $2,333,239 for the corresponding period of 2008. The decrease was the net effect of $447,690 decrease in marketing expenses, and $249,509 increase in salary and related expenses. The increase in salary and related expenses reflected the increased Company's investment in reinforcement of its sales team to continue to expand business and provide high-grade customer service. Selling, general, and administrative expenses as a percentage of revenue are expected to fluctuate in and future quarters depending on the amount of net sales recognized.

OTHER INCOME (EXPENSE), NET

The net of other income (expense) decreased by $21,683, or 17.1%, to $105,482 for the nine months ended March 31, 2009 from $127,165 for the corresponding period of 2008. The decrease was the net effect of $36,948 decrease in interest income caused by the advanced payment of $1 million paid to C-Motech, and $33,400 increase in forgiveness of debt for the nine months ended March 31, 2009.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents decreased by $928,716 to $5,243,853 as of March 31, 2009 compared to $6,172,569 as of June 30, 2008. The decrease was primarily due to a $1,939,670 decrease in net income, $329,513 used in short-term investment, and $300,600 used in payment of the note payable.

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OPERATING ACTIVITIES

Net cash used in operating activities was $239,664 for the nine months ended March 31, 2009, and net cash provided by operating activities was $3,123,363 for the nine months ended March 31, 2008. The decrease from the prior period is primarily due to the increase in inventory and decrease in net income.

INVESTING ACTIVITIES

Net cash used in investing activities was $388,452 and $49,615 for the nine months ended March 31, 2009, and 2008, respectively, consisting of capital expenditures.

FINANCING ACTIVITIES

Net cash used in financing activities was $300,600, which was the net amount of the note paid in full to a stockholder after 10% discount of $33,400 represented as a forgiveness of debt, for the nine months ended March 31, 2009. Net cash used in financing activities was $88,605, which was the net amount of the note paid and a receipt of stock subscription receivable, for the nine months ended March 31, 2008.

CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

The Company's material off-balance sheet contractual commitments are operating lease obligations. The Company excluded these items from the balance sheet in accordance with GAAP. The Company does not maintain any other off-balance sheet arrangements, transactions, obligations or other relationships with unconsolidated entities that would be expected to have a material current or future effect upon its financial condition or results of operations. The Company's principal future obligations and commitments at March 31, 2009, include the following:

OPERATING LEASE

The Company leases its administrative facilities under a non-cancelable operating lease that expires on August 31, 2011, and its principal future obligations and commitments as of the expiration date are approximately $260,000. 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 $80,778 and $47,221 for the nine months ended March 31, 2009 and 2008, respectively.

The Company leases its corporate housing facility under a non-cancelable operating lease that expires on April 30, 2009 for its vendor, and its principal future obligations and commitments as of the expiration date are $1,567. Rent expense related to the operating lease was $14,023 and $13,203 for the nine months ended March 31, 2009 and 2008, respectively.

The Company leases one automobile under an operating lease that expires on July 22, 2009, and its principal future obligations and commitments as of the expiration date is approximately $2,150. Lease expense was $4,839 and $4,839 for the nine months ended March 31, 2009 and 2008, respectively.

LITIGATION

From time to time the Company is involved in certain legal proceedings and claims which arise in the normal course of business. Management does not believe that the outcome of these matters will have any material adverse effect on its financial condition.

CO-DEVELOPMENT, CO-OWNERSHIP AND SUPPLY AGREEMENT

The Company's facility is located in San Diego, California. Manufacturing of the Company's products has been contracted out to C-Motech Co. Ltd. ("C-Motech"), located in South Korea.

In January 2005, the Company entered into an agreement with C-Motech for the manufacture of the products. Under the manufacturing and supply agreement, C-Motech provides the Company with services including all licenses, component procurement, final assembly, testing, quality control, fulfillment and after-sale service. The Agreement provides exclusive rights to market and sell CDMA wireless data products in countries in North America, the Caribbean, and South America. Furthermore, the Agreement provides that the Company is responsible for marketing, sales, field testing, and certifications of these products to wireless service operators and other commercial buyers 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 the Company has 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 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. As of May 15, 2009, the agreement is still valid for an additional one year period.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

As the Company is a "smaller reporting company," this Item is inapplicable.

ITEM 4T. CONTROLS AND PROCEDURES.

The Company maintains disclosure controls and procedures as defined under the Securities Exchange Act of 1934. They are designed to help ensure that material information is: (1) gathered and communicated to its management, including its principal executive and financial officers, in a manner that allows for timely decisions regarding required disclosures; and (2) recorded, processed, summarized, reported and filed with the SEC as required under the Securities Exchange Act of 1934 and within the time periods specified by the SEC.

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of June 30, 2008. Based on such evaluation, the Company's Chief Executive officer and Chief Financial Officer concluded that its disclosure controls and procedures were effective as of March 31, 2009.

There were no changes in the Company's internal control over financial reporting during its most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The Company is not currently involved in any material legal proceedings. The Company is, from time to time, involved in routine legal proceedings and claims arising in the ordinary course of business.

ITEM 1A: RISK FACTORS.

Our Annual Report on Form 10-K for the fiscal year ended June 30, 2008 filed with the SEC on September 26, 2008(the "ANNUAL REPORT"), includes a detailed discussion of our risk factors under the heading "PART I, ITEM 1A -- RISK FACTORS." You should carefully consider the risk factors discussed in our Annual Report and the additional risk factor described below, as well as the other information in this quarterly report. Any of these risks could cause our business, financial condition, results of operations and future growth prospects to suffer.

THE SUBSTANTIAL LEVEL OF INVENTORY MAINTAINED BY THE COMPANY COULD INCREASE ITS LOSSES IF THE INVENTORY IS NOT SOLD FOR ANY REASON. As of March 31, 2009, the Company's inventories increased significantly due to a one time large purchase of the CMU-300 WIMAX plus CDMA USB modems. Although the purchase was based on the Company's internal demand forecasts using management's best estimates available, there could be unsold inventories resulting from a number of reasons, including a potential inability on the part of customers to finance purchases of the Company's products and reduced demand by the ultimate end-users of the Company's products.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Acting Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Acting Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

Franklin Wireless Corp.

By: /s/ OC Kim

OC Kim
President and Acting Chief Financial Officer

Dated: May 15, 2009