

FRANKLIN WIRELESS CORP  
Form 10-Q  
May 15, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2018

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: 001-14891

**FRANKLIN WIRELESS CORP.**

(Exact name of Registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**9707 Waples Street**

**95-3733534**

(I.R.S. Employer Identification Number)

**92121**

**Suite 150**

(Zip code)

**San Diego, California**

(Address of principal executive offices)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input checked="" type="checkbox"/>	Emerging Growth Company <input type="checkbox"/>
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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

The Registrant has 10,570,203 shares of common stock outstanding as of May 15, 2018.



**FRANKLIN WIRELESS CORP.**

**FORM 10-Q**

**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2018**

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## NOTE ON FORWARD LOOKING STATEMENTS

You should keep in mind the following points as you read this Report on Form 10-Q:

The terms “we,” “us,” “our,” “Franklin,” “Franklin Wireless,” or the “Company” refer to Franklin Wireless Corp.

This Report on Form 10-Q contains statements which, to the extent they do not recite historical fact, constitute “forward looking” statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward looking statements are used under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operation,” and elsewhere in this Quarterly Report on Form 10-Q. You can identify these statements by the use of words like “may,” “will,” “could,” “should,” “project,” “believe,” “anticipate,” “expect,” “plan,” “estimate,” “forecast,” “potential,” “intend,” “continue,” and variations of these or comparable words. Forward looking statements do not guarantee future performance and involve risks and uncertainties. Actual results may differ substantially from the results that the forward looking statements suggest for various reasons, including those discussed under the caption “Risk Factors” in Item 1A of our Annual Report on Form 10-K for the year ended June 30, 2017. These forward looking statements are made only as of the date of this Report on Form 10-Q. We do not undertake to update or revise the forward looking statements, whether as a result of new information, future events or otherwise.

**PART I – FINANCIAL INFORMATION****ITEM 1. Financial Statements****FRANKLIN WIRELESS CORP.****CONSOLIDATED BALANCE SHEETS**

	March 31, 2018 (unaudited)	June 30, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 12,070,658	\$ 14,285,001
Accounts receivable	6,216,009	10,993,191
Other receivables, net	62,862	79,021
Inventories, net	1,356,352	3,379,065
Prepaid expenses and other current assets	20,251	19,135
Prepaid income taxes	28,240	28,240
Advance payments to vendors	134,319	127,100
Total current assets	19,888,691	28,910,753
Property and equipment, net	147,656	219,942
Intangible assets, net	1,076,241	1,109,475
Deferred tax assets, non-current	1,744,174	1,661,906
Goodwill	273,285	273,285
Other assets	145,043	136,652
<b>TOTAL ASSETS</b>	<b>\$ 23,275,090</b>	<b>\$ 32,312,013</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 5,142,917	\$ 12,862,564
Advance payments from customers	911	51,997
Accrued liabilities	261,270	288,342
Total current liabilities	5,405,098	13,202,903
Total liabilities	5,405,098	13,202,903
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Parent Company stockholders' equity		
Preferred stock, par value \$0.001 per share, authorized 10,000,000 shares;	–	–
No preferred stock issued and outstanding as of March 31, 2018 and June 30, 2017	13,972	13,922

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Common stock, par value \$0.001 per share, authorized 50,000,000 shares; 10,570,203 and 10,520,203 shares issued and outstanding as of March 31, 2018 and June 30, 2017, respectively		
Additional paid-in capital	7,442,272	7,375,322
Retained earnings	14,536,998	15,846,022
Treasury stock, 3,472,286 shares as of March 31, 2018 and June 30, 2017	(4,513,479 )	(4,513,479 )
Accumulated other comprehensive loss	(540,189 )	(613,805 )
Total Parent Company stockholders' equity	16,939,574	18,107,982
Non-controlling interests	930,418	1,001,128
Total stockholders' equity	17,869,992	19,109,110
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$23,275,090</b>	<b>\$32,312,013</b>

See accompanying notes to consolidated financial statements.



**FRANKLIN WIRELESS CORP.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(Unaudited)**

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
Net sales	\$6,565,442	\$9,748,910	\$22,562,054	\$36,806,346
Cost of goods sold	5,121,593	7,798,910	18,279,140	29,697,400
Gross profit	1,443,849	1,950,000	4,282,914	7,108,946
Operating expenses:				
Selling, general and administrative	1,124,113	1,142,211	3,202,455	3,609,423
Research and development	744,794	892,430	2,641,526	2,589,889
Total operating expenses	1,868,907	2,034,641	5,843,981	6,199,312
Income (loss) from operations	(425,058 )	(84,641 )	(1,561,067 )	909,634
Other income, net:				
Interest income	2,479	2,202	7,513	6,752
Other income, net	51,423	40,731	90,765	173,716
Total other (loss) income, net	53,902	42,933	98,278	180,468
Income (loss) before provision for income taxes	(371,156 )	(41,708 )	(1,462,789 )	1,090,102
Income tax provision (benefit)	(182,175 )	(54,730 )	(83,055 )	340,450
Net (loss) income	(188,981 )	13,022	(1,379,734 )	749,652
Non-controlling interests in net loss of subsidiary at 48.2%	48,259	60,456	70,710	111,705
Net (loss) income attributable to Parent Company	\$(140,722 )	\$73,478	\$(1,309,024 )	\$861,357
Basic earnings (loss) per share attributable to Parent Company stockholders	\$(0.01 )	\$0.01	\$(0.12 )	\$0.08
Diluted earnings (loss) per share attributable to Parent Company stockholders	\$(0.01 )	\$0.01	\$(0.12 )	\$0.08
Weighted average common shares outstanding – basic	10,570,203	10,519,394	10,570,203	10,495,573
Weighted average common shares outstanding – diluted	10,570,203	10,785,279	10,570,203	10,761,458
Comprehensive income				
Net (loss) income	\$(188,981 )	\$13,022	\$(1,379,734 )	\$749,652
Translation adjustments	(4,567 )	71,071	73,616	42,459
Comprehensive (loss) income	(193,548 )	84,093	(1,306,118 )	792,111
Comprehensive loss attributable to non-controlling interest	48,259	60,456	70,710	111,705
Comprehensive (loss) income attributable to controlling interest	\$(145,289 )	\$144,549	\$(1,235,408 )	\$903,816

See accompanying notes to consolidated financial statements.

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

	<b>Nine Months Ended</b>	
	<b>March 31,</b>	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) income	\$(1,379,734 )	\$749,652
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation	94,084	113,837
Amortization of intangible assets	363,140	353,369
Deferred tax asset (benefit)	(82,268 )	(15,795 )
Share-based compensation	–	(25,000 )
Increase (decrease) in cash due to change in:		
Accounts receivable	4,793,341	2,786,327
Inventories	2,022,713	1,034,542
Prepaid expenses and other current assets	(1,116 )	(3,659 )
Advance payments to vendors	(7,219 )	(169,859 )
Other assets	(8,391 )	(3,055 )
Accounts payable	(7,719,647 )	(6,075,908 )
Advance payments from customers	(51,086 )	302,429
Accrued liabilities	(27,072 )	53,477
Income tax payable	–	355,380
Net cash used in operating activities	(2,003,255 )	(544,263 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(21,798 )	(45,199 )
Payments for capitalized development costs	(291,386 )	(180,578 )
Purchases of intangible assets	(38,520 )	(56,661 )
Net cash used in investing activities	(351,704 )	(282,438 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of stock related to stock options exercised	67,000	104,820
Net cash provided by financing activities	67,000	104,820
Effect of foreign currency translation	73,616	42,459
Net decrease in cash and cash equivalents	(2,214,343 )	(679,422 )
Cash and cash equivalents, beginning of period	14,285,001	13,156,754
Cash and cash equivalents, end of period	\$12,070,658	\$12,477,332
<b>Supplemental disclosure of cash flow information:</b>		
Cash received (paid) during the periods for:		

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Interest	\$7,513	\$-
Income taxes	\$(800	) \$(10,800 )

See accompanying notes to consolidated financial statements.

**FRANKLIN WIRELESS CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements of Franklin Wireless Corp. (“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. In the opinion of management, the financial statements included herein contain all adjustments, including normal recurring adjustments, considered necessary to present fairly the financial position, the results of operations and comprehensive income (loss) and cash flows of the Company for the periods presented. These financial statements and notes hereto should be read in conjunction with the financial statements and notes thereto for the fiscal year ended June 30, 2017 included in the Company’s Form 10-K filed on September 28, 2017. The operating results or cash flows for 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**

We are a provider of intelligent wireless solutions including mobile hotspots, routers and modems as well as innovative hardware and software products that support machine-to-machine (M2M) applications and the Internet of Things (IoT). Our M2M and IoT solutions include embedded modules, modems and gateways built to deliver reliable always-on connectivity supporting a broad spectrum of applications. These products are designed to solve wireless connectivity challenges in a variety of vertical markets including video surveillance, digital signage, home security, oil and gas exploration, kiosks, fleet management, smart grid, vehicle diagnostics, telematics and many more.

We have a majority ownership position in Franklin Technology Inc. ("FTI"), a research and development company located in Seoul, South Korea. FTI primarily provides design and development services to us for our wireless products.

Our products are generally marketed and sold directly to wireless operators, and indirectly through strategic partners and distributors. Our global customer base extends primarily from the United States to countries in South America, the Caribbean, Europe, the Middle East and Africa ("EMEA") and Asia.

### **NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and a subsidiary with a majority voting interest of 51.8% (48.2% is owned by non-controlling interests) as of March 31, 2018 and June 30, 2017. In the preparation of consolidated financial statements of the Company, intercompany transactions and balances are eliminated and net earnings are reduced by the portion of the net earnings of the subsidiary applicable to non-controlling interests.

#### **Non-controlling Interest in a Consolidated Subsidiary**

As of March 31, 2018, the non-controlling interest was \$930,418, which represents a \$70,710 decrease from \$1,001,128 as of June 30, 2017. The decrease was due to the net loss of subsidiary of \$146,580 for the nine months ended March 31, 2018, of which 48.2% was attributable to the non-controlling interests.

#### **Segment Reporting**

Public companies are required to report financial and descriptive information about their reportable operating segments. We identify our operating segments based on how our chief operating decision maker internally evaluates separate financial information, business activities and management responsibility. We have one reportable segment, consisting of the sale of wireless access products.

We generate revenues from four geographic areas, consisting of the United States, the Caribbean and South America, EMEA and Asia. The following enterprise-wide disclosure is prepared on a basis consistent with the preparation of the consolidated financial statements. The following table contains certain financial information by geographic area:

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
Net sales:	2018	2017	2018	2017
United States	\$6,414,074	\$9,407,328	\$21,813,370	\$35,943,763
Caribbean and South America	–	94,500	234,970	252,000
Europe, the Middle East and Africa (“EMEA”)	138,799	219,064	333,021	508,078
Asia	12,569	28,018	180,693	102,505
Totals	\$6,565,442	\$9,748,910	\$22,562,054	\$36,806,346

Long-lived  
assets, net

(property and  
equipment and  
intangible assets):

	March 31, 2018	June 30, 2017
United States	\$ 1,171,362	\$ 1,209,050
Asia	52,535	120,367
Totals	\$ 1,223,897	\$ 1,329,417

### Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could materially differ from those estimates.

### Fair Value of Financial Instruments

The carrying amounts of financial instruments such as cash equivalents, accounts receivable, accounts payable and debt approximate the related fair values due to the short-term maturities of these instruments. We invest our excess cash into financial instruments which management believes are readily convertible into cash, such as money market funds and certificates of deposit.

### **Allowance for Doubtful Accounts**

Based upon our review of our collection history as well as the current balances associated with all significant customers and associated invoices, we do not believe an allowance for doubtful accounts was necessary as of March 31, 2018 and June 30, 2017.

### **Revenue Recognition**

We recognize revenue when persuasive evidence of an arrangement exists, the price is fixed or determinable, collection is reasonably assured, and delivery of products has occurred, or services have been rendered. Accordingly, we recognize revenues from product sales upon shipment of the products to customers or when the products are received by the customers in accordance with shipping or delivery terms. We provide a warranty for one year from the shipment date, which is covered by our vendors pursuant to purchase agreements. Any net warranty related expenditures made by us have not historically been material. Under our sales return policy, customers may generally return products that are under warranty for repair or replacement.

### **Cost of Goods Sold**

All costs associated with our contract manufacturers, as well as distribution, fulfillment and repair services are included in our cost of goods sold. Cost of goods sold also includes amortization expense associated with capitalized product development costs associated with complete technology.

### **Capitalized Product Development Costs**

Our products contain embedded software internally developed by FTI, which is an integral part of these products because it allows the various components of the products to communicate with each other and the products are clearly unable to function without this coding.





The costs of product development that are capitalized once technological feasibility is determined (noted as Technology in progress in the Intangible Assets table) include certifications, licenses, payroll, employee benefits, and other headcount-related expenses associated with product development. We determine that technological feasibility for our products is reached after all high-risk development issues have been resolved. Once the products are available for general release to our customers, we cease capitalizing the product development costs and any additional costs, if any, are expensed. The capitalized product development costs are amortized on a product-by-product basis using the greater of straight-line amortization or the ratio of the current gross revenues to the current and anticipated future gross revenues. The amortization begins when the products are available for general release to our customers.

As of March 31, 2018, and June 30, 2017, capitalized product development costs in progress were \$100,000 and \$360,148, respectively, and these amounts are included in intangible assets in our consolidated balance sheets. During the three and nine months ended March 31, 2018, we incurred \$66,901 and \$291,386, respectively, in capitalized product development costs, and such amounts are primarily comprised of certifications and licenses. All costs incurred before technological feasibility is reached are expensed and included in our consolidated statements of comprehensive income (loss).

### **Research and Development Costs**

Costs associated with research and development are expensed as incurred. Research and development costs were \$744,794 and \$892,430 for the three months ended March 31, 2018 and 2017, respectively, and \$2,641,526 and \$2,589,889 for the nine months ended March 31, 2018 and 2017, respectively.

### **Warranties**

We provide a warranty for one year which is covered by our vendors and manufacturers under purchase agreements between the Company and the vendors. As a result, we believe we do not have any net warranty exposure and do not accrue any warranty expenses. Historically, the Company has not experienced any material net warranty expenditures.

### **Shipping and Handling Costs**

Costs associated with product shipping and handling are expensed as incurred. Shipping and handling costs, which are included in selling, general and administrative expenses on the consolidated statements of comprehensive income (loss), were \$177,623 and \$220,998 for the three months ended March 31, 2018 and 2017, respectively, and \$560,458 and \$1,100,610 for the nine months ended March 31, 2018 and 2017, respectively.

### **Cash and Cash Equivalents**

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

### **Inventories**

Our inventories consist of finished goods and are stated at the lower of cost or net realizable value, 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 the control of the Company. We may write down our inventory value for potential obsolescence and excess inventory. As of March 31, 2018, and June 30, 2017, we have recorded an inventory reserve in the amount of \$148,900 for inventories that we have identified as obsolete or slow-moving.

## Property and Equipment

Property and equipment are recorded at cost. Significant additions or improvements extending useful lives of assets are capitalized. Maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives as follows:

Machinery	6 years
Office equipment	5 years
Molds	3 years
Vehicles	5 years
Computers and software	5 years
Furniture and fixtures	7 years
Facilities improvements	5 years or life of the lease, whichever is shorter

## Goodwill and Intangible Assets

Goodwill and certain intangible assets were recorded in connection with the FTI acquisition in October 2009, and are accounted for in accordance with ASC 805, "Business Combinations." Goodwill represents the excess of the purchase price over the fair value of the tangible and intangible net assets acquired. Intangible assets are recorded at their fair value at the date of acquisition. Goodwill and other intangible assets are accounted for in accordance with ASC 350, "Goodwill and Other Intangible Assets." Goodwill and other intangible assets are tested for impairment at least annually and any related impairment losses are recognized in earnings when identified. No impairment was recognized during the periods ended March 31, 2018 and June 30, 2017.

The definite lived intangible assets consisted of the following as of March 31, 2018:

Definite lived intangible assets:	Expected Life	Average	Gross	Accumulated Amortization	Net Intangible Assets
		Remaining life	Intangible Assets		
Complete technology	3 years	3.0 years	18,397	–	18,397
Technology in progress	Not Applicable	–	100,000	–	100,000
Software	5 years	2.5 years	277,918	229,773	48,145
Patents	10 years	6.3 years	58,391	6,186	52,205
Certifications & licenses	3 years	1.5 years	3,250,061	2,392,567	857,494
<b>Total as of March 31, 2018</b>			<b>\$3,704,767</b>	<b>\$ 2,628,526</b>	<b>\$1,076,241</b>

The definite lived intangible assets consisted of the following as of June 30, 2017:

Definite lived intangible assets:	Expected Life	Average Remaining life	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Complete technology	3 years	0.5 years	2,402	2,002	400
Complete technology	3 years	0.7 years	6,405	4,804	1,601
Complete technology	3 years	3.0 years	18,397	–	18,397
Supply and development agreement	8 years	0.3 years	1,121,000	1,085,969	35,031
Technology in progress	Not Applicable	-	360,148	–	360,148
Software	5 years	2.7 years	239,398	216,829	22,569
Patents	10 years	7.0 years	58,391	4,693	53,698
Certifications & licenses	3 years	1.9 years	2,698,526	2,080,895	617,631
Total as of June 30, 2017			\$4,504,667	\$ 3,395,192	\$ 1,109,475

Amortization expense recognized during the three months ended March 31, 2018 and 2017 was \$116,788 and \$112,031 respectively, and during the nine months ended March 31, 2018 and 2017 was \$363,140 and \$353,369, respectively.

### 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 asset; 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 are less than its carrying amount.

As of March 31, 2018, we are not aware of any events or changes in circumstances that would indicate that the long-lived assets are impaired.

### **Stock-based Compensation**

The Company's employee share-based awards result in a cost that is measured at fair value on an award's grant date, based on the estimated number of awards that are expected to vest. Stock-based compensation is recognized on a straight-line basis over the award's vesting period. The Company estimates the fair value of stock options using a Black-Scholes option pricing model. Transactions with non-employees in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date of the fair value of the equity instrument issued is the earlier of the date on which the counterparty's performance is complete or the date on which it is probable that performance will occur. Stock-based compensation costs are reflected in the accompanying consolidated statements of comprehensive income (loss) based upon the underlying recipients' roles within the Company.

### **Income Taxes**

The Company uses the asset and liability method of accounting for income taxes. Accordingly, deferred tax assets and liabilities are determined based on the difference between the financial statement and income tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded to reduce the carrying amount of deferred tax assets, unless it is more likely than not such assets will be realized. Current income taxes are based on the year's taxable income for federal and state income tax reporting purposes and the annual change in deferred taxes.

The Company assesses its income tax positions and records tax benefits based upon management's evaluation of the facts, circumstances, and information available at the reporting date. For those tax positions where it is more likely than not that a tax benefit will be sustained, the Company records the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. For those income tax positions where it is not more likely than not that a tax benefit will be sustained, no tax benefit is recognized in the financial statements. The Company classifies interest and penalties associated with such uncertain tax positions as a component of income tax expense.

As of March 31, 2018, we have no material unrecognized tax benefits. We recorded an income tax benefit of \$182,175 and \$83,055 for the three and nine months ended March 31, 2018, respectively, and an increase in deferred tax asset, non-current, of \$180,537 and \$82,268 for the three and nine months ended March 31, 2018.

The Tax Cuts and Jobs Act (the “Act”) was signed into law on December 22, 2017. The Act includes a provision to reduce the federal corporate income tax rate to a flat 21% effective for taxable years beginning on or after January 1, 2018. ASC 740 provides that deferred tax assets and liabilities are to be measured at the enacted rate, which is expected to apply when the related temporary differences are to be realized or settled, and the related tax impact is recognized through continuing operations in the period in which tax legislation is enacted. Accordingly, the Company remeasured its deferred tax assets as of December 31, 2017, resulting in an approximate \$400,000 decrease, which was included as a component of the income tax provision recognized for the nine months ended March 31, 2018.

Additionally, the Act requires under Internal Revenue Code (“IRC”) Section 965 a deemed repatriation of post-1986 undistributed foreign earnings. Under the provision, U.S. taxpayers are subject to a special tax on previously untaxed foreign income held in the foreign subsidiaries in the tax year 2017. The Company has not performed a formal analysis to determine the post-1986 earnings and has insufficient information to determine an estimate as of the date of the filing of this Form 10-Q. Accordingly, no provision has been recognized with respect to the IRC Section 965 tax. Once the formal analysis is completed in connection with our fiscal year end and the tax amount is determined, a provision adjustment may be recorded in the Company’s consolidated financial statements.

## **Earnings per Share Attributable to Common Stockholders**

Earnings per share is calculated by dividing the net income by the weighted-average number of common shares that were outstanding for the period, without consideration for potential common shares. Diluted earnings per share is calculated by dividing the net income by the sum of the weighted-average number of dilutive potential common shares outstanding for the period determined using the treasury-stock method or the as-converted method. Potentially dilutive shares are comprised of common stock options outstanding under our stock plan.

## **Concentrations**

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 provide for an allowance for potential credit losses as deemed necessary. No reserve was required or recorded for any of the periods presented.

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. For the nine months ended March 31, 2018, sales to our three largest customers accounted for 55%, 19% and 12% of our consolidated net sales, and 58%, 34% and 0% of our accounts receivable balance as of March 31, 2018. In the same period in 2017, sales to our two largest customers accounted for 67% and 30% of our consolidated net sales and 78% and 15% of our accounts receivable balance as of March 31, 2017. No other customers accounted for more than ten percent of total net sales for the nine months ended March 31, 2018 and 2017, and no other customers accounted for more than ten percent of total accounts receivable as of March 31, 2018 and 2017.

For the nine months ended March 31, 2018, we purchased the majority of our wireless data products from one manufacturing company located in Asia. If this manufacturing 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 the Company's revenue. For the nine months ended March 31, 2018, we purchased wireless data products from this manufacturer in the amount of \$14,004,980, or 89% of total purchases, and had related accounts payable of \$4,133,501 as of March 31, 2018. For the nine months ended March 31, 2017, we purchased wireless data products from one manufacturing company in the amount of \$27,336,612, or 97% of total purchases, and had related accounts payable of \$6,381,423 as of March 31, 2017.



We maintain our cash accounts with established commercial banks. Such cash deposits exceed the Federal Deposit Insurance Corporation insured limit of \$250,000 for each financial institution. However, we do not anticipate any losses on excess deposits.

### **Recently Issued Accounting Pronouncements**

In July 2015, the Financial Accounting Standards Board (“FASB”) issued ASU 2015-11, Inventory—Simplifying the Measurement of Inventory. ASU 2015-11 requires inventory to be subsequently measured using the lower of cost and net realizable value, thereby eliminating the market value approach. Net realizable value is defined as the “estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation.” ASU 2015-11 was effective for us on July 1, 2017 and was applied prospectively. The adoption of this update did not materially impact the Company's consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842) (ASU 2016-02), which amends existing standards for leases to increase transparency and comparability among organizations by requiring recognition of lease assets and liabilities on the balance sheet and requiring disclosure of key information about such arrangements. ASU 2016-02 will be effective for us beginning in our first quarter of fiscal 2020, and early adoption is permitted. We are currently evaluating the impact of adopting the new standard on our consolidated financial statements and the timing and presentation of our adoption.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Compensation-Stock Compensation (Topic 718) (ASU 2016-09), which provides guidance improvements to employee share-based payment accounting. The standard amends several aspects of current employee share-based payment accounting including income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 was effective for us beginning in our first quarter of fiscal 2018. The adoption of this update did not materially impact the Company's consolidated financial statements given the Company's limited use of stock options.

In April 2016, the FASB issued Accounting Standards Update No. 2016-10, Revenue from Contracts with Customers (Topic 606) (ASU 2016-10), which amends and adds clarity to certain aspects of the guidance set forth in the upcoming revenue standard (ASU 2014-09) related to identifying performance obligations and licensing. In May 2016, the FASB issued Accounting Standards Update No. 2016-11, Revenue Recognition (Topic 605), which amends and rescinds certain revenue recognition guidance previously released within ASU 2014-09. In May 2016 the FASB issued Accounting Standards Update No. 2016-12, Revenue from Contracts with Customers (Topic 606) (ASU 2016-12), which provides narrow scope improvements and practical expedients related to ASU 2014-09. All of these new standards will be effective for us concurrently with ASU 2014-09, beginning in our first quarter of fiscal 2019, and early adoption is permitted. We are currently evaluating the impact of adopting these new standards on our consolidated financial statements. Our implementation approach includes performing a detailed study of the various types of agreements that we have with our customers and assessing conformity of our current accounting practices with the new standards.

#### **NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following as of:

	March 31, 2018	June 30, 2017
Machinery and facility	\$305,588	\$303,986
Office equipment	384,555	380,473
Molds	984,720	968,606
	1,674,863	1,653,065
Less accumulated depreciation	(1,527,207)	(1,433,123)
Total	\$ 147,656	\$219,942

Depreciation expense associated with property and equipment was \$30,181 and \$37,621 the three months ended March 31, 2018 and 2017, respectively, and \$94,084 and \$113,837 for the nine months ended March 31, 2018 and 2017, respectively.

#### **NOTE 5 – ACCRUED LIABILITIES**

Accrued liabilities consisted of the following as of:

	March 31, 2018	June 30, 2017
Accrued salaries, payroll deductions owed to government entities	\$37,297	\$45,278
Accrued vacation	54,145	56,612
Accrued seed stocks	140,000	140,000
Taxes	549	3,305
Other accrued liabilities	29,279	43,147
Total	\$261,270	\$288,342

**NOTE 6 – EARNINGS (LOSS) PER SHARE**

Basic earnings (loss) per share are computed using the weighted average number of shares outstanding during the period. Diluted earnings per share represent basic earnings per share adjusted to include the potentially dilutive effect of outstanding stock options.

For the three and nine months ended March 31, 2018, we were in a net loss position and have excluded 349,000 stock options from the calculation of diluted net loss per shares because these securities are anti-dilutive. The weighted average number of shares outstanding used to compute earnings (loss) per share is as follows:

	Three Months ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
Net (loss) income attributable to Parent Company	\$(140,722	) \$73,478	\$(1,309,024	) \$861,357
Weighted-average shares of common stock outstanding:				
Basic shares outstanding	10,570,203	10,519,394	10,570,203	10,495,573
Dilutive effect of common stock equivalents arising from stock options	–	265,885	–	265,885
Diluted shares outstanding	10,570,203	10,785,279	10,570,203	10,761,458
Basic (loss) earnings per share	\$(0.01	) \$0.01	\$(0.12	) \$0.08
Diluted (loss) earnings per share	\$(0.01	) \$0.01	\$(0.12	) \$0.08

## NOTE 7 - COMMITMENTS AND CONTINGENCIES

### Leases

We lease approximately 12,775 square feet of office space in San Diego, California, at a monthly rent of \$23,115, pursuant to a lease that expires in October 2019. In addition to monthly rent, the lease includes payment for certain common area costs. Our facility is covered by an appropriate level of insurance and we believe it to be suitable for our use and adequate for our present needs. Rent expense for this office space was \$69,345 for the three months ended March 31, 2018 and 2017, and \$208,035 for the nine months ended March 31, 2018 and 2017.

Our Korea-based subsidiary, FTI, leases approximately 10,000 square feet of office space in Seoul, Korea, at a monthly rent of approximately \$8,000. The lease expired on September 1, 2017 and was extended to September 1, 2019. FTI leases additional office space consisting of approximately 2,682 square feet, also located in Seoul, Korea, at a monthly rent of approximately \$2,700, under a lease that expired on September 1, 2017 and was extended to September 1, 2019. In addition to monthly rent, the lease provides for periodic cost of living increases in the base rent and payment for certain common area costs. These facilities are covered by an appropriate level of insurance and we believe them to be suitable for our use and adequate for our present needs. Rent expense related to these leases was approximately \$32,100 for the three months ended March 31, 2018 and 2017, and approximately \$96,300 for the nine months ended March 31, 2018 and 2017.

We lease one corporate housing facility in Seoul, Korea, primarily for our employees who travel, under a non-cancelable operating lease that expired September 5, 2017 and was extended to September 4, 2018. Rent expense related to this lease was approximately \$2,664 and \$2,511 for the three months ended March 31, 2018 and 2017, and approximately \$7,158 and \$7,499 for the nine months ended March 31, 2018 and 2017.

## **Litigation**

We are from time to time involved in certain legal proceedings and claims arising in the ordinary course of business. Management does not believe that the outcome of these matters will have any material adverse effect on the Company.

## **Change of Control Agreements**

On September 21, 2009, we entered into Change of Control Agreements with OC Kim, our President, and Yun J. (David) Lee, our Chief Operating Officer. Each Change of Control Agreement provides for a lump sum payment to the officer in case of a change of control of the Company. The term includes the acquisition of Common Stock of the Company resulting in one person or company owning more than 50% of the outstanding shares, a significant change in the composition of the Board of Directors of the Company during any 12-month period, a reorganization, merger, consolidation or similar transaction resulting in the transfer of ownership of more than fifty percent (50%) of the Company's outstanding Common Stock, or a liquidation or dissolution of the Company or sale of substantially all of the Company's assets.

The Change of Control Agreement with Mr. Kim calls for a payment of \$5 million upon a change of control, and the agreement with Mr. Lee calls for a payment of \$2 million upon a change of control.

The Board of Directors has approved extension of the Change of Control Agreements with Mr. Kim and Mr. Lee, through September 21, 2020.

## NOTE 8 – LONG-TERM INCENTIVE PLAN AWARDS

We adopted the 2009 Stock Incentive Plan (“2009 Plan”) on June 11, 2009, which provided for the grant of incentive stock options and non-qualified stock options to our employees and directors. Options granted under the 2009 Plan generally have a term of ten years and generally vest and become exercisable at the rate of 33% after one year and 33% on the second and third anniversaries of the option grant dates. Historically, some stock option grants have included shorter vesting periods ranging from one to two years.

The estimated forfeiture rate considers historical turnover rates stratified into employee pools in comparison with an overall employee turnover rate, as well as expectations about the future. We periodically revise the estimated forfeiture rate in subsequent periods if actual forfeitures differ from those estimates. There was no compensation expense recorded under this method for the three and nine months ended March 31, 2018.

A summary of the status of our stock options is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value
Outstanding as of June 30, 2017	399,000	\$ 1.12	4.05	\$ 451,820
Granted	—	—	—	—
Exercised	(50,000 )	(1.34 )	4.21	(99,000 )
Cancelled	—	—	—	—
Forfeited or Expired	—	—	—	—
Outstanding as of March 31, 2018	349,000	\$ 1.09	3.17	\$ 312,090
Exercisable as of March 31, 2018	349,000	\$ 1.09	3.17	\$ 312,090

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based upon the Company's closing stock price of \$1.98 as of March 31, 2018, which would have been received by the option holders had all option holders exercised their options as of that date. The weighted-average grant-date fair value of stock options outstanding as of March 31, 2018, in the amount of 349,000 shares, was \$0.98 per share.

As of March 31, 2018, there was no unrecognized compensation cost related to non-vested stock options granted.

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

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. This report contains certain forward-looking statements relating to future events or our future financial performance. These statements are subject to risks and uncertainties which could cause actual results to differ materially from those discussed in this report. You are cautioned not to place undue reliance on this information, which speaks only as of the date of 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" in the Company's Form 10-K for the year ended June 30, 2017, filed on September 28, 2017. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this report might not occur.

### **BUSINESS OVERVIEW**

We are a provider of intelligent wireless solutions including mobile hotspots, routers and modems as well as innovative hardware and software products that support machine-to-machine (M2M) applications and the Internet of Things (IoT). Our M2M and IoT solutions include embedded modules, modems and gateways built to deliver reliable always-on connectivity supporting a broad spectrum of applications. These products are designed to solve wireless connectivity challenges in a variety of vertical markets including video surveillance, digital signage, home security, oil and gas exploration, kiosks, fleet management, smart grid, vehicle diagnostics, telematics and many more.

We have a majority ownership position in FTI, a research and development company located in Seoul, South Korea. FTI primarily provides design and development services to us for our wireless products.

Our products are generally marketed and sold directly to wireless operators, and indirectly through strategic partners and distributors. Our global customer base extends primarily from the United States to countries in South America, the Caribbean, EMEA and Asia.

### **FACTORS THAT MAY INFLUENCE FUTURE RESULTS OF OPERATIONS**



We believe that our revenue growth will be influenced largely by (1) the 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 (5) our ability to meet customers' demands.

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 customers.

## **CRITICAL ACCOUNTING POLICIES**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of these financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Management evaluates these estimates and assumptions on an ongoing basis. Our estimates and assumptions have been prepared on the basis of the most current reasonably available information. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates under different assumptions and conditions.

We have several critical accounting policies, which were described in our Annual Report on Form 10-K for the year ended June 30, 2017, that are both important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective and complex judgments. Typically, the circumstances that make these judgments difficult, subjective and complex have to do with making estimates about the effect of matters that are inherently uncertain. There were no material changes to our critical accounting policies during the three months ended March 31, 2018.

**RESULTS OF OPERATIONS**

The following table sets forth, for the three and nine months ended March 31, 2018 and 2017, our statements of comprehensive income including data expressed as a percentage of sales:

	<b>Three Months Ended March 31, 2018</b>		<b>Nine Months Ended March 31, 2017</b>	
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	78.0%	80.0%	81.0%	80.7%
Gross profit	22.0%	20.0%	19.0%	19.3%
Operating expenses	28.5%	20.09%	25.9%	16.8%
Income (loss) from operations	(6.5%)	(0.9%)	(6.9%)	2.5%
Other income (expense), net	0.8%	0.4%	0.4%	0.5%
Net income (loss) before income taxes	(5.7%)	(0.5%)	(6.5%)	3.0%
Income tax provision (benefit)	(2.8%)	(0.6%)	(0.4%)	1.0%
Net income (loss)	(2.9%)	0.1%	(6.1%)	2.0%
Non-controlling interest in net loss (income) of subsidiary	0.8%	0.7%	0.3%	0.3%
Net income (loss) attributable to Parent Company stockholders	(2.1%)	0.8%	(5.8%)	2.3%

**THREE MONTHS ENDED MARCH 31, 2018 COMPARED TO THREE MONTHS ENDED MARCH 31, 2017**

**NET SALES** - Net sales decreased by \$3,183,468, or 32.7%, to \$6,565,442 for the three months ended March 31, 2018 from \$9,748,910 for the corresponding period of 2017. For the three months ended March 31, 2018, net sales by geographic regions, consisting of the United States, South America and the Caribbean, EMEA and Asia, were \$6,414,074 (97.7% of net sales), \$0 (0.0% of net sales), \$138,799 (2.1% of net sales) and \$12,569 (0.2% of net sales), respectively. For the three months ended March 31, 2017, net sales by geographic regions, consisting of the United States, South America and the Caribbean, EMEA and Asia, were \$9,407,328 (96.5% of net sales), \$94,500 (1.0% of net sales), \$219,064 (2.2% of net sales) and \$28,018 (0.3% of net sales), respectively.

Net sales in the United States decreased by \$2,993,254, or 31.8%, to \$6,414,074 for the three months ended March 31, 2018 from \$9,407,328 for the corresponding period of 2017. The decrease in net sales was primarily due to lower product demand from two carrier customers, which was partially offset by the launch of a new product. Net sales in the South American and Caribbean regions decreased by \$94,500, or 100%, to \$0 for the three months ended March 31, 2018 from \$94,500 for the three months ended March 31, 2017. The decrease in net sales was primarily due to the general nature of sales in these regions, which often fluctuate significantly from period to period due to timing of

orders placed by a relatively small number of customers. Net sales in EMEA decreased by \$80,265, or 36.6%, to \$138,799 for the three months ended March 31, 2018 from \$219,064 for the corresponding period of 2017. The decrease in net sales was due to timing of orders placed by a carrier customer in Africa. Net sales in Asia decreased by \$15,449, or 55.1%, to \$12,569 for the three months ended March 31, 2018 from \$28,018 for the corresponding period of 2017. The decrease in net sales was primarily due to lower product and component sales generated by FTI, which typically vary from period to period.

**GROSS PROFIT** - Gross profit decreased by \$506,151, or 26.0%, to \$1,443,849 for the three months ended March 31, 2018 from \$1,950,000 for the corresponding period of 2017. The gross profit in terms of net sales percentage was 22.0% for the three months ended March 31, 2018 compared to 20.0% for the corresponding period of 2017. The decrease in gross profit was primarily due to the change in net sales as described above. The increase in gross profit in terms of net sales percentage was primarily due to variations in customer and product mix, competitive selling prices and product costs which generally vary from period to period and region to region.

**OPERATING EXPENSES** - Operating expenses decreased by \$165,734, or 8.1%, to \$1,868,907 for the three months ended March 31, 2018 from \$2,034,641 for the corresponding period of 2017. The decrease in operating expenses was primarily due to the decrease in overall expenses from a cost reduction effort and the lower shipping and handling costs resulting from the decreased volume of product shipments.

**OTHER INCOME (LOSS), NET** - Other income (loss), net increased by \$10,969, or 25.6%, to \$53,902 for the three months ended March 31, 2018 from \$42,933 for the corresponding period of 2017. The increase in other income (loss), net was primarily due to favorable changes in foreign currency exchange rates that occurred during the three months ended March 31, 2018. During the three months ended March 31, 2017, other income (loss), net included unfavorable changes in foreign currency exchange rates, which is partially offset by the higher product development funding received by FTI from a government entity compared to the three months ended March 31, 2018.

**NINE MONTHS ENDED MARCH 31, 2018 COMPARED TO NINE MONTHS ENDED MARCH 31, 2017**

**NET SALES** - Net sales decreased by \$14,244,292, or 38.7%, to \$22,562,054 for the nine months ended March 31, 2018 from \$36,806,346 for the corresponding period of 2017. For the nine months ended March 31, 2018, net sales by geographic regions, consisting of the United States, South America and the Caribbean, EMEA and Asia, were \$21,813,370 (96.7% of net sales), \$234,970 (1.0% of net sales), \$333,021 (1.5% of net sales) and \$180,693 (0.8% of net sales), respectively. For the nine months ended March 31, 2017, net sales by geographic regions, consisting of the United States, South America and the Caribbean, EMEA and Asia, were \$35,943,763 (97.6% of net sales), \$252,000 (0.7% of net sales), \$508,078 (1.4% of net sales) and \$102,505 (0.3% of net sales), respectively.

Net sales in the United States decreased by \$14,130,393, or 39.3%, to \$21,813,370 for the nine months ended March 31, 2018 from \$35,943,763 for the corresponding period of 2017. The decrease in net sales was primarily due to lower product demand from two carrier customers, which was partially offset by the launch of three new products, one of which was sold to a new customer. Net sales in the South American and Caribbean regions decreased by \$17,030, 6.8%, to \$234,970 for the nine months ended March 31, 2018 from \$252,000 for the nine months ended March 31, 2017. The decrease in net sales was primarily due to the general nature of sales in these regions, which often fluctuate significantly from period to period due to timing of orders placed by a relatively small number of customers. Net sales in EMEA decreased by \$175,057, or 34.5%, to \$333,021 for the nine months ended March 31, 2018 from \$508,078 for the corresponding period of 2017. The increase/decrease in net sales was due to timing of orders placed by a carrier customer in Africa. Net sales in Asia increased by \$78,188, or 76.3%, to \$180,693 for the nine months ended March 31, 2018 from \$102,505 for the corresponding period of 2017. The increase in net sales was primarily due to higher product and component sales generated by FTI, which typically vary from period to period.

**GROSS PROFIT** - Gross profit decreased by \$2,826,032, or 39.8%, to \$4,282,914 for the nine months ended March 31, 2018 from \$7,108,946 for the corresponding period of 2017. The gross profit in terms of net sales percentage was 19.0% for the nine months ended March 31, 2018, compared to 19.3% for the corresponding period of 2017. The decrease in gross profit was primarily due to the change in net sales as described above. The decrease in gross profit in terms of net sales percentage was primarily due to variations in customer and product mix, competitive selling prices and product costs which generally vary from period to period and region to region.

**OPERATING EXPENSES** - Operating expenses decreased by \$355,331, or 5.7%, to \$5,843,981 for the nine months ended March 31, 2018 from \$6,199,312 for the corresponding period of 2017. The decrease in operating expenses was primarily due to lower shipping and handling costs resulting from the decreased volume of product shipments, which was partially offset by the increase in research and development expenses and overall payroll expenses.

**OTHER INCOME (LOSS), NET** - Other income (loss), net decreased by \$82,190, or 45.5%, to \$98,278 for the nine months ended March 31, 2018 from \$180,468 for the corresponding period of 2017. The decrease in other income (loss), net was primarily due to the lower product development funding received by FTI from a government entity

compared to the nine months ended March 31, 2017.

## **LIQUIDITY AND CAPITAL RESOURCES**

Our historical operating results, capital resources and financial position, in combination with current projections and estimates, were considered in management's plan and intentions to fund our operations over a reasonable period of time, which we define as the twelve-month period ending from the date of the filing of this Form 10-Q. For purposes of liquidity disclosures, we assess the likelihood that we have sufficient available working capital and other principal sources of liquidity to fund our operating activities and obligations as they become due.

Our principal source of liquidity as of March 31, 2018 consisted of cash and cash equivalents of \$12,070,658. We believe we have sufficient available capital to cover our existing operations and obligations through at least one year from the date of the filing of this Form 10-Q. Our long-term future cash requirements will depend on numerous factors, including our revenue base, profit margins, product development activities, market acceptance of our products, future expansion plans and ability to control costs. If we are unable to achieve our current business plan or secure additional funding that may be required, we would need to curtail our operations or take other similar actions outside the ordinary course of business in order to continue to operate as a going concern.

**OPERATING ACTIVITIES** - Net cash used in operating activities for the nine months ended March 31, 2018 and 2017 was \$2,003,255 and \$544,263, respectively.

The \$2,003,255 in net cash used in operating activities for the nine months ended March 31, 2018 was primarily due to the decrease in accounts payable of \$7,717,278 as well as our operating results (net income adjusted for depreciation, amortization and other non-cash charges), which were partially offset by the decreases in accounts receivable and inventories of \$4,793,341 and \$2,022,713, respectively.

The \$544,623 in net cash used in operating activities for the nine months ended March 31, 2017 was primarily due to the decrease in accounts payable of \$6,075,908, which was partially offset by the decreases in accounts receivable and inventories of \$2,786,327 and \$1,034,542, respectively, as well as our operating results (net income adjusted for depreciation, amortization and other non-cash charges).

**INVESTING ACTIVITIES** - Net cash used in investing activities for the nine months ended March 31, 2018 and 2017 was \$351,704 and \$282,438, respectively.

The \$351,704 in net cash used in investing activities for the nine months ended March 31, 2018 was primarily due to due to the payments for capitalized product development of \$291,386 as well as the purchases of intangible assets of \$38,520.

The \$282,438 in net cash used in investing activities for the nine months ended March 31, 2017 was primarily due to the payments for capitalized product development of \$180,578 and purchases of intangible assets and property and equipment of \$56,661 and \$45,199, respectively.

**FINANCING ACTIVITIES** - Net cash provided by investing activities for the nine months ended March 31, 2018 and 2017 was \$67,000 and \$104,820, respectively, which was due to the cash received from the exercise of stock options.

## **CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS**

Refer to NOTE 7 - COMMITMENTS AND CONTINGENCIES in the Consolidated Financial Statements.

### **Recently Issued Accounting Pronouncements**

Refer to NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES in the Consolidated Financial Statements.

### **OFF-BALANCE SHEET ARRANGEMENTS**

None.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As a “smaller reporting company,” the Company is not required to respond to this item.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

Our management has evaluated, under the supervision and with the participation of our President and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, our President and our Chief Financial Officer have concluded that, as of March 31, 2018, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC and (ii) accumulated and communicated to our management, including our principal executive and principal accounting officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

#### **Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the three months ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. On April 6, 2018, our Chief Financial Officer resigned to pursue other opportunities and we have initiated a search for a replacement. Until a replacement is hired, our President is serving as Acting Chief Financial Officer.



## **PART II – OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

We have provided information about legal proceedings in which we are involved in Note 7 of the notes to consolidated financial statements for the nine months ended March 31, 2018, contained within this Quarterly Report on Form 10-Q.

### **ITEM 1A. RISK FACTORS**

Our Annual Report on Form 10-K for the fiscal year ended June 30, 2017, filed with the SEC on September 28, 2017 (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, as well as 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. We are not aware of any material changes from the risk factors previously disclosed.

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

None.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. MINE SAFETY DISCLOSURES**

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 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 Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

In accordance with Section 13 of 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Franklin Wireless Corp.

/s/ OC Kim

By:

OC Kim

President

(Principal Executive Officer)

/s/ OC Kim

By:

OC Kim

Acting Chief Financial Officer

(Principal Financial Officer)

Dated: May 15, 2018