FRANKLIN WIRELESS CORP
Form 10-K
October 12, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For fiscal year ended June 30, 2010

OR

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

For the transition period from to .

Commission file number: 0-11616

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

Nevada (State or other jurisdiction of incorporation or organization)	95-3733534 (I.R.S. Employer Identification Number)
5440 Morehouse Drive, Suite 1000, San Diego, California (Address of principal executive offices)	92121 (Zip code)

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

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

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

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

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

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 o No o

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

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

Large accelerated filero	Accelerated filero	Non-accelerated filero	Smaller reporting company x

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

The aggregate market value of the voting common stock held by non-affiliates of the Registrant, based on the closing price of the Registrant's common stock on December 31, 2009, as reported by The OTC Bulletin Board, was approximately $9,228,169. For the purpose of this calculation only, shares owned by officers, directors (and their affiliates) and 5% or greater stockholders have been excluded. The Registrant does not have any non-voting stock issued or outstanding.

The Registrant has 11,977,807 shares of common stock outstanding as of October 12, 2010.

FRANKLIN WIRELESS CORP.
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FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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NOTE ON FORWARD LOOKING STATEMENTS

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

- the terms "we", "us", "our", “Franklin”, “Franklin Wireless”, or the "Company" refer to Franklin Wireless Corp.
- our fiscal year ends on June 30; references to fiscal 2010 and fiscal 2009 and similar constructions refer to the fiscal year ended on June 30 of the applicable year.

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

PART I

ITEM 1. BUSINESS.

BUSINESS OVERVIEW

We are engaged in the design, manufacture and sale of broadband high speed wireless data communication products such as third generation (“3G”) and fourth generation (“4G”) wireless modules and modems. We focus primarily on wireless broadband Universal Serial Bus (“USB”) modems, which provide a flexible way for consumers to connect to wireless broadband networks from laptop or desktop computers. Our broadband wireless data communication products are positioned at the convergence of wireless communications, mobile computing and the Internet, each of which we believe represents a growing market.

Our 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), Worldwide Interoperability for Microwave Access (“WiMAX”) based on the IEEE 802.16 standard and Long Term Evolution (LTE) which enable end users to send and receive email with large file attachments, play interactive games, receive, send and download high resolution pictures, videos and music content.

We market our products directly to wireless operators, and indirectly through strategic partners and distributors. Our global customer base extends primarily from the United States to South American and Caribbean countries. Our USB modems are certified by Sprint, Comcast Cable, Cox, Clearwire, Time Warner Cable and other wireless operators located in the United States and also by wireless operators located in other Caribbean and South American countries.

On October 1, 2009, we completed the acquisition of approximately 50.6% of the outstanding capital stock of Diffon Corporation, a South Korean corporation ("Diffon"). The purpose of the acquisition was to acquire a significant interest in a facility in South Korea that provides design, development and manufacturing services to the Company for high speed wireless data communication products including 3G and 4G wireless modules and modems. Diffon performs research and development functions and outsources its manufacturing process to third parties. The acquisition involved two separate but related transactions.

In the first transaction, we entered into a Share Exchange Agreement, dated October 1, 2009, with two major shareholders of Diffon (the "Diffon Shareholders"). We issued the Diffon Shareholders an aggregate of 550,000 shares of the Company's Common Stock in exchange for 440,000 shares of capital stock of Diffon, representing approximately 20.1% of the outstanding capital stock of Diffon. Under the Agreement, the Diffon Shareholders, acting together, have an unconditional right of rescission for one year, so that they may elect to return the Company’s Common Stock received by them and receive the Diffon shares in return. On February 27, 2010, we announced the revocation of the right of rescission, which terminated the Diffon Shareholders’ right to return the Company’s Common Stock received by them for the Diffon shares in return.

In the second transaction, pursuant to a Common Stock Purchase Agreement dated October 1, 2009, we purchased 666,667 newly-issued shares of Diffon, representing approximately 30.5% of the outstanding capital stock of Diffon after giving effect to the issuance, for cash in the amount of $833,333. The Agreement provides that at the Closing the Board of Directors of Diffon will be fixed at five directors, including two directors to be designated by the Company. The Company, Diffon and the Diffon Shareholders entered into a Shareholders' Agreement concerning ownership of the Diffon shares and certain other matters.

We accounted for the acquisition under the purchase method of accounting in accordance with the provisions of ASC 805, "Business Combinations." Under this accounting method, the company recorded at fair value the acquired assets of Diffon less the liabilities assumed, with the excess of the purchase price over the estimated fair value of such net assets reflected as goodwill. Our consolidated statement of operations includes the operations of Diffon from the date of acquisition.

On October 15, 2009, we opened a branch office in Seoul, South Korea, through a wholly-owned subsidiary of Franklin Wireless. The office manages certain logistical and administrative efforts for the Company.

OUR STRUCTURE

We incorporated in 1982 in California and reincorporated in Nevada on January 2, 2008. The reincorporation had no effect on the nature of our business or our management. Our headquarters office is located in San Diego, California. The office is principally composed of marketing, sales, operations, finance and administrative support. It is responsible for all customer-related activities, such as marketing communications, product planning, product management and customer support, along with sales and business development activities on a worldwide basis.

On October 1, 2009, we completed the acquisition of approximately 50.6% of the outstanding capital stock of Diffon Corporation, a South Korean corporation ("Diffon"). Diffon provides design, development and manufacturing services to the Company for certain of its high speed wireless data communications products including 3G and 4G wireless modems, routers and modules.

ASC 280, “Segment Reporting,” requires public companies to report financial and descriptive information about their reportable operating segments. We identify our operating segments based on how management internally evaluates separate financial information, business activities and management responsibility. We have one reportable segment, consisting of the sale of wireless access products. We generate revenues from three geographic areas which consist of the United States, the Caribbean and South America 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:

	Fiscal Year Ended June 30,	
Net sales:	2010	2009
United States	$ 98,404,968	$ 14,334,956
Caribbean and South America	2,858,225	9,665,548
Asia	634,926	–
Totals	$ 101,898,119	$ 24,000,504

Long-lived assets, net:	June 30, 2010	June 30, 2009
United States	$ 110,913	$ 89,807
Asia	3,733,292	–
Totals	$ 3,844,205	$ 89,807

OUR PRODUCTS

We were the world’s first supplier of both CDMA EVDO Rev A and dual-mode (CDMA Rev A/WiMAX) Universal Serial Bus (USB) modems. Our mobile broadband and data products include a variety of wireless USB modems as well as Wi-Fi “hotspot” routers (which operate over WiMAX or CDMA networks) and embedded modules. Our products provide consumers with an easy and convenient way in which to wirelessly connect to the Internet from laptop or desktop computers. These high-speed devices support the viewing of web pages, sending and receiving email with large file attachments, as well as downloading pictures, videos and music content. Our products are based on widely deployed cellular technologies and operate across 3G and 4G networks including:

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

- Long Term Evolution (LTE) is a 4G mobile broadband standard.

The following are representative selections of our current CDMA, HSPA, WiMax and LTE wireless data products:

USB MODEMS:

- Dual-mode (3G and 4G) USB modems: These devices, when plugged into the Universal Serial Bus (USB) port of laptop or desktop computers, provide an easy and convenient way for consumers to connect to 3G or 4G wireless broadband networks.

- Single mode USB modems: Operate over a variety of networks including CDMA EVDO Rev A and HSPA.

STAND-ALONE MODEMS:

- For Machine-to-Machine and other vertical markets with a need for an Internet connection, such as a kiosk or other remote location, where no cable or DSL service exists.

ROUTERS:

- Hotspot Routers: Embedded Wi-Fi hotspot routers that operate over CDMA EVDO Rev A or WiMAX Wave II networks.

MODULES:

- Embedded Modules: In general, these are single mode devices whose primary market is original equipment manufacturers (OEMs) who seek a reliable embedded module solution for their wireless data applications.

CUSTOMERS

Our global customer base is comprised of wireless operators, strategic partners and distributors who are located primarily in the United States, South America and the Caribbean regions. The Company's USB modems are certified by Sprint, Comcast Cable, Cox, Clearwire, Time Warner Cable and other wireless operators located in the United States and also by wireless operators located in other Caribbean and South American countries.

SALES AND MARKETING

We market and sell our products primarily to wireless operators located in the United States, South America and the Caribbean regions mainly through our internal, direct sales organization and to a lesser degree, indirectly through strategic partners and distributors. The sales process is supported with a range of marketing activities including trade shows, product marketing and public relations.

All of our wireless devices must pass Federal Communications Commission (FCC) testing in order to be sold in United States markets. CDMA Development Group ("CDG") test certifications are required in order to launch CDMA wireless data products with wireless operators in North America, the Caribbean and South America, and PCS Type Certification Review Board ("PTCRB") test certifications are required for HSPA wireless data products. Certifications are issued as being a qualifier of CDG1, CDG 2 and CDG 3 as well as PTCRB.

RESEARCH AND DEVELOPMENT

On October 1, 2009, we completed the acquisition of approximately 50.6% of the outstanding capital stock of Diffon Corporation, a South Korean corporation. The purpose of the acquisition was to acquire a significant interest in a facility in South Korea that provides design, development and manufacturing services to us for high speed wireless data communication products including 3G and 4G wireless modules and modems. Diffon performs research and development functions and outsources its manufacturing process to third parties.

PRODUCTION AND MANUFACTURING OPERATIONS

For the fiscal year ended June 30, 2010, the manufacturing of our products was contracted out to C-Motech Co. Ltd. (“C-Motech”), an electronics manufacturing company, located in South Korea and to other manufacturing companies located in various parts of Asia outsourced through Diffon.

In January 2005, we entered into a manufacturing and supply agreement with C-Motech for the manufacture of our products. On November 2, 2009, C-Motech provided a written notice to terminate the agreement effective January 5, 2010. Following this date, C-Motech continues to supply the Company with certain products.

EMPLOYEES

As of June 30, 2010, we employed approximately 58 employees. We also use the services of consultants and contract workers from time to time. Our employees are not represented by any collective bargaining organization, and we have never experienced a work stoppage.

ITEM 1A: RISK FACTORS.

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

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

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

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

- We may be required to indemnify our customers for certain costs and damages they incur in such a claim.

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

Absent a specific claim for infringement of intellectual property, from time to time we have and expect to continue to license technology, intellectual property and software from third parties. There is no assurance that we will be able to maintain our third party licenses or obtain new licenses when required and this inability could materially adversely affect our business and operating results and the quality and functionality of our products. In addition, there is no assurance that third party licenses we execute will be on commercially reasonable terms.

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

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

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

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

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

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

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

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

THE LOSS OF ANY OF OUR MATERIAL CUSTOMERS COULD ADVERSLY AFFECT OUR REVENUES AND PROFITABILITY, AND THEREFORE SHAREHOLDER VALUE. We depend on a small number of customers for a significant portion of our revenues. For the year ended June 30, 2010, net revenues from one customer, Sprint, represented the substantial majority of our consolidated net sales. If this customer were to reduce its business with us, our revenues and profitability could decline, perhaps materially.

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

We lease approximately 6,070 square feet of office space in San Diego, California, at a monthly rent of $9,469, and the lease expires on August 31, 2011. In addition to monthly rent, the lease provides for periodic cost of living increases in the base rent and payment of common area costs. Our facility is covered by an appropriate level of insurance and we believe it to be suitable for our respective use and adequate for our present needs.

We own approximately 10,000 square feet of office space, consisting of land and building, in Korea, and we have the right to sell, rent, mortgage, or transfer the property. The property is covered by an appropriate level of insurance and we believe it to be suitable for our respective use and adequate for our present needs.

ITEM 3. LEGAL PROCEEDINGS.

We are from time to time involved in certain legal proceedings and claims arising in the ordinary course of business. On June 18, 2009, MSTG, Inc. filed a complaint in the United States District Court for the Northern District of Illinois, Eastern Division against one of our customers as one of several defendants. The complaint alleges that certain wireless devices, including devices provided by the Company, infringe on U.S. Patent Nos. 5,920,551; 6,198,936 and 6,438,113. All of the Company provided devices were purchased by the Company from one of its suppliers. The supplier has been notified of the complaint and is evaluating this matter. As of June 30, 2010, this legal proceeding is pending, but we do not expect it to have a material adverse effect on our financial condition.

ITEM 4. (REMOVED AND RESERVED)

PART II

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

MARKET PRICE OF OUR COMMON STOCK

Share of our Common Stock are quoted and traded on the OTC Bulletin Board" under the trading symbol "FKWL.OB". The following table sets forth the range of high and low bid quotation per share for the Common Stock as reported during the years ending June 30, 2010 and 2009. The bid price reflects inter-dealer prices and does not include retail mark-up, markdown, or commission.

	High	Low
Year Ended June 30, 2010		
First Quarter	$1.01	$0.57
Second Quarter	$2.50	$0.75
Third Quarter	$2.20	$1.10
Fourth Quarter	$2.45	$1.97
Year Ended June 30, 2009		
First Quarter	$1.99	$1.40
Second Quarter	$1.45	$0.34
Third Quarter	$0.79	$0.35
Fourth Quarter	$0.70	$0.33

We have one class of common stock. As of June 30, 2010, we have approximately 788 shareholders of record. Since many of the shares of our common stock are held by brokers and other institutions on behalf of shareholders, it is impossible to estimate the total number of beneficial holders represented by these record holders.

DIVIDENDS

We have never declared or paid any dividends on our Common Stock. We currently intend to retain all available funds for use in the operation and development of our business and, therefore, and do not expect to declare or pay any cash dividends in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA.

As a "smaller reporting company" as defined by Rule 12b-2 of the Exchange Act, we are not required to respond to this item.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and related notes included elsewhere in this report. 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” below. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this report might not occur.

BUSINESS OVERVIEW

We are engaged in the design, manufacture and sale of broadband high speed wireless data communication products such as third generation ("3G") and fourth generation ("4G") wireless modules and modems. We focus primarily on wireless broadband Universal Serial Bus ("USB") modems, which provide a flexible way for consumers to connect to wireless broadband networks from laptop or desktop computers. Our broadband wireless data communication products are positioned at the convergence of wireless communications, mobile computing and the Internet, each of which we believe represent a growing market.

We market and sell our products through two channels: Directly to wireless operators, and indirectly through strategic partners and distributors. Our global customer base extends primarily from the United States to South American and Caribbean countries. Our USB modems are certified by Sprint, Comcast Cable, Cox, Clearwire, Time Warner Cable and other wireless operators located in the United States and also by wireless operators located in other Caribbean and South American countries.

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 for our new products, (4) new customer relationships and contracts, and (4) 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, a wholly-owned subsidiary, and a subsidiary with a majority voting interest of 50.6% (49.4% is owned by non-controlling interests). In the preparation of consolidated financial statements of the Company, all intercompany balances and transactions have been eliminated.

As consolidated financial statements are based on the assumption that they represent the financial position and operating results of a single economic entity, the retained earnings or deficit of a subsidiary at the date of acquisition, October 1, 2009, by the parent are excluded from consolidated retained earnings. When a subsidiary is consolidated during the twelve months ended June 30, 2010, the consolidated financial statements include the subsidiary's revenues, expenses, gains, and losses only from the date the subsidiary is initially consolidated, and the noncontrolling interest is reported in the consolidated statement of financial position within equity, separately from the parent's equity. That amount is clearly identified and labeled. There are no shares of the Company held by the subsidiaries as of June 30, 2010.

Segment Reporting

ASC 280, “Segment Reporting,” requires public companies to report financial and descriptive information about their reportable operating segments. We identify our operating segments based on how management internally evaluates separate financial information, business activities and management responsibility. We have one reportable segment, consisting of the sale of wireless access products.

We generate revenues from three geographic areas which consist of the United States, the Caribbean and South America 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:

	Fiscal Year Ended June 30,	
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Totals	$ 3,844,205	$ 89,807

Fair Value of Financial Instruments

We are required to disclose the estimated fair value of certain assets and liabilities in accordance with ASC-825-10, “financial instruments”. As of June 30, 2010, management believes that the carrying value of cash and cash equivalents approximates fair value, due to the short maturity of theses financial instruments. (See “Note 3”)

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.

Allowance for Doubtful Accounts

We do not maintain an allowance for doubtful accounts based upon our review of our collection history associated with all significant outstanding invoices.

Revenue Recognition

We recognize revenue in accordance with ASC 605, “Revenue Recognition,” when persuasive evidence of an arrangement exists, the price is fixed or determinable, collection is reasonably assured and delivery of products has occurred or services have been rendered. Accordingly, we recognize revenues from product sales upon shipment of the product to the customers or when the products are received by the customers in accordance with shipping or delivery terms. We provide a factory warranty for one year, which is covered by our vendors under the purchase agreements.

Capitalized Product Development

Capitalized product development includes payroll, employee benefits, and other headcount-related expenses associated with product development. Once technological feasibility is reached, which is generally shortly before the products are released to manufacturing, such costs are capitalized and amortized over the estimated lives of the products. For the year ended June 30, 2010, capitalized product development was $1,087,684, and is included in intangible assets in our consolidated balance sheet.

Inventories

Our inventories are made up of finished goods and are stated at the lower of cost or market, cost being determined on a first-in, first-out basis. We assess the inventory carrying value and reduce it, if necessary, to its net realizable value based on customer orders on hand, and internal demand forecasts using management's best estimates given information currently available. Our customer demand is highly unpredictable, and can fluctuate significantly caused by factors beyond the control of the Company. We do not maintain an allowance for inventories for potential excess or obsolete inventories or inventories that are carried at costs that are higher than their estimated net realizable values.

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:

Building	40 years
Machinery	6 years
Office equipment	5 years
Molds	3 years
Vehicles	5 years
Computers and software	5 years
Furniture and fixtures	7 years
Facilities	5 years
Construction-in-progress	Capitalized

Goodwill and Intangible Assets

Goodwill and intangible assets are recorded in connection with the Diffon acquisition and are accounted for in accordance with ASC 805, "Business Combinations." Goodwill represents 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 is tested for impairment at least annually and any related impairment losses are recognized in earnings when identified.

Long-lived Assets

In accordance with ASC 360, "Property, Plant, and Equipment," 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 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.

Income Taxes

Deferred income tax assets and liabilities are recorded for differences between the financial statement and tax basis of the assets and liabilities that will result in taxable or deductible amounts in the future based on enacted laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. We have evaluated the available evidence supporting the realization of its gross deferred tax assets, including the amount and timing of future taxable income, and have determined it is more likely than not that the assets will be fully realized and no valuation allowance is necessary at June 30, 2010. As of June 30, 2010, we have federal and state net operating loss carryforwards of approximately $5.2 million and $1.7 million, which expire through 2024 and 2015, respectively. The utilization of net operating loss carryforwards is subject to limitations under provision of the Internal Revenue Code Section 382 and similar state provisions.

We adopted the provision of ASC 740 related to accounting for uncertain tax positions effective July 1, 2007, 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 this provision, 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. Tax benefits of an uncertain tax position will not be recognized if it has less than a 50% likelihood of being sustained based on technical merits.

Earnings Per Share

We report earnings per share in accordance with ASC 260, “Earnings Per Share.” Basic earnings per share are computed using the weighted average number of shares outstanding during the fiscal year. Diluted earnings per share represent basic earnings per share adjusted to include the potentially dilutive effect of outstanding stock options.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2009, the FASB Accounting Standards Codification (Codification) was issued. The Codification is the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The implementation of this standard is not expected to have a material impact to our consolidated financial statements.

In May 2009, the FASB issued ASC 855, “Subsequent Events.” ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The standard, which includes a new required disclosure through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009.

In September 2009, the FASB issued new accounting guidance related to the revenue recognition for multiple element arrangements. The new guidance states that if vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, companies will be required to develop a best estimate of the selling price to separate deliverables and allocate arrangement consideration using the relative selling price method. The accounting guidance will be applied prospectively and will become effective during the first quarter of 2011. Early adoption is allowed. We do not believe the adoption of this guidance will have a material impact to our consolidated financial statements.

In January 2010, the FASB issued new accounting guidance related to the disclosure requirements for fair value measurements and provides clarification for existing disclosures requirements. More specifically, this update will require (a) an entity to disclose separately the amounts of significant transfers in and out of Levels 1 and 2 fair value measurements and to describe the reasons for the transfers; and (b) information about purchases, sales, issuances and settlements to be presented separately (i.e. present the activity on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs). This guidance clarifies existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value and requires disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs. The new disclosures and clarifications of existing disclosure are effective for fiscal years beginning after December 15, 2009, except for the disclosure requirements related to the purchases, sales, issuances and settlements in the rollforward activity of Level 3 fair value measurements. Those disclosure requirements are effective for fiscal years ending after December 31, 2010. We do not believe the adoption of this guidance will have a material impact to our consolidated financial statements.

RESULT OF OPERATIONS

The following table sets forth, for the years ended June 30, 2010, 2009 and 2008, our statements of operations including data expressed as a percentage of sales:

	Year Ended June 30,		
	2010 (Consolidated)	2009	2008
	(as a percentage of sales)		
Net Sales	100.0%	100.0%	100.0%
Cost of goods sold	86.2%	78.4%	77.8%
Gross profit	13.8%	21.6%	22.2%
Selling, general and administrative expenses	6.2%	11.9%	9.5%
Income from operations	7.6%	9.7%	12.7%
Other (loss) income, net	(0.1%)	0.4%	0.3%
Net income before income taxes	7.5%	10.1%	13.0%
Income tax provision (benefit)	2.9%	(5.1%)	1.7%
Net income before non-controlling interest	4.6%	15.2%	11.3%
Non-controlling interest in net loss of subsidiary	0.1%	–	–
Net income	4.7%	15.2%	11.3%

YEAR ENDED JUNE 30, 2010 COMPARED TO YEAR ENDED JUNE 30, 2009

NET SALES - Net sales increased by $77,897,615, or 324.6%, to $101,898,119 for the year ended June 30, 2010 from $24,000,504 for the corresponding period of 2009. For the year ended June 30, 2010, the mix of net sales by geographic region consisted primarily of South America and Caribbean, the United States, and Asia, amounted to $2,858,225 (2.8% of the net sales), $98,404,968 (96.6% of the net sales), and $634,926 (0.6% of the net sales), respectively.

The overall increase in net sales was primarily due to increased demand for our dual-mode (3G and 4G) wireless USB modems. Net sales in the South America and Caribbean regions decreased by $6,807,323, or 70.4%, to $2,858,225 for the year ended June 30, 2010 from $9,665,548 for the corresponding period of 2009. The decrease was due to increased market competition, the decline in purchasing power of consumers, as well as the general nature of sales in these regions which often fluctuate significantly from year to year due to timing of orders placed by a relatively small number of customers. Net sales in the United States increased by $84,070,012, or 586.5%, to $98,404,968 for the year ended June 30, 2010 from $14,334,956 for the corresponding period of 2009. The increase in net sales was primarily due to increased demand for our dual-mode (3G and 4G) wireless USB modems. Net sales in the Asia region increased by $634,926 to $634,926 for the year ended June 30, 2010 from $0 for the corresponding period of 2009. The increase is due to including $634,926 of research and development service revenue in net sales generated from Diffon. Beginning with the three months ended December 31, 2009, Diffon's financial results were consolidated with those of the Company, following the Company's acquisition of approximately 50.6% of Diffon's outstanding capital stock on October 1, 2009. Because of this, the fiscal year ended June 30, 2009 did not include any net sales from Diffon.

GROSS PROFIT – Gross profit increased by $8,848,229, or 170.9%, to $14,024,723 for the year ended June 30, 2010 from $5,176,494 for the corresponding period of 2009. The increase was primarily due to the change in net sales as discussed above. The gross profit in terms of net sales percentage was 13.8% for the year ended June 30, 2010 compared to 21.6% for the corresponding period of 2009. The gross profit decrease in terms of net sales percentage was primarily due to the significant increase in sales to carrier customers in the United States, whose gross profit in terms of net sales percentage was approximately 12.2% and accounted for 96.6% of total net sales for the year ended June 30, 2010. The decrease in sales in the South America and Caribbean regions also negatively affected the gross profit in terms of net sales percentage. The carrier customers in the United States generally purchase greater quantities of products than those in South America and the Caribbean, which is why the gross profit in terms of net sales percentage is lower. The sales from the Asia region were primarily made up of engineering service revenues, which positively affected the gross profit in terms of net sales percentage for the year ended June 30, 2010.

SELLING, GENERAL, AND ADMINISTRATIVE - Selling, general, and administrative expenses increased by $3,498,924, or 122.4%, to $6,358,631 for the year ended June 30, 2010 from $2,859,707 for the corresponding period of 2009. The increase was primarily due to the consolidation of the Diffon expenses, which accounted for $1,632,348 of the increase. The remainder of the change is due to higher payroll expense (due to headcount growth) and related expenditures.

OTHER INCOME (EXPENSE), NET - The net of other income (expense) decreased by $185,079 to ($85,024) for the year ended June 30, 2010 from $100,055 for the corresponding period of 2009. The decrease was primarily due to the loss on the disposal of fixed assets of $123,109.

YEAR ENDED JUNE 30, 2009 COMPARED TO YEAR ENDED JUNE 30, 2008

NET SALES - Net sales decreased by $10,722,795, or 30.9%, to $24,000,504 for the year ended June 30, 2009 from $34,723,299 for the corresponding period of 2008. For the year ended June 30, 2009, the mix of net sales by geographic region consisted primarily of Caribbean and South American countries and the United States, amounted to $9,665,548, (40.3% of net sales), and $14,334,956, (59.7% of net sales), respectively. The overall decrease in sales was primarily due to a mix of decrease in sales and sales price for our EVDO technology products in Caribbean and South American countries, caused by a decline in purchasing power of customers and their currencies. Net sales in Caribbean and South American countries decreased by $15,683,284, or 61.9%, to $9,665,548 for the year ended June 30, 2009 from $25,348,832, compared to the corresponding period of 2008. This decrease was offset by an increase in sales in the United States by approximately $4,960,489, or 52.9%, to $14,334,956 from $9,374,467 as a result of the increase in demand for our new EVDO technology product, CMU-300 WIMAX plus CDMA USB Modem, which was launched in the first half of fiscal year 2009. Net sales in the United Sates represented 59.7% of the net sales for the year ended June 30, 2009, compared to 27.0% for the corresponding period of 2008, while CMU-300 net sales represented approximately 54.9% of the net sales in the United States for the year ended June 30, 2009, compared to 0.0% for the corresponding period of 2008.

GROSS PROFIT – Gross profit decreased by $2,517,789, or 32.7%, to $5,176,495, or 21.6% of net sales, for the year ended June 30, 2009 from $7,694,284, or 22.2% of net sales, for the corresponding period of 2008. The decrease was primarily due to a decrease in net sales by $10,722,795, or 30.9%. The decrease in gross profit margin was primarily due to higher sales of the lower margin EV-DO technology product, CMU-300, for the year ended June 30, 2009, compared to the corresponding period of 2008.

SELLING, GENERAL, AND ADMINISTRATIVE - Selling, general, and administrative expenses decreased by $440,364, or 13.3%, to $2,859,707 for the year ended June 30, 2009 from $3,300,071 for the corresponding period of 2008. The decrease was primarily due to a $773,423 decrease in sales commission expenses due to the decrease in sales and $276,367 increase in salaries and related expenditures due to the increase in our sales force.

OTHER INCOME (EXPENSE), NET - The net of other income (expense) decreased by $12,093, or 10.8%, to $100,055 for the year ended June 30, 2009 from $112,149 for the corresponding period of 2008. The decrease was primarily due to the net effect of the decrease of $50,249 in interest income, the decrease of $4,544 in other income, the increase of $11,125 in other expenses, and the decrease of $53,825 in loss on disposal of assets.

LIQUIDITY AND CAPITAL RESOURCES

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

OPERATING ACTIVITIES – Net cash provided by operating activities for the years ended June 30, 2010, 2009, and 2008 was $11,109,872, $443,393 and $3,835,893, respectively. The $11,109,872 in net cash provided by operating activities for the year ended June 30, 2010 was primarily due to our consolidated net income of $4,777,784, the decrease in inventory of $2,420,714, and increases in trade accounts payable, marketing funds payable and income taxes payable which were $1,515,944, $1,244,694 and $929,538 respectively. The $443,393 in net cash provided by operating activities for the year ended June 30, 2009 was primarily due to net income of $3,639,166 and a decrease in accounts receivable $1,718,747 which were partially offset by increases in inventory and deferred tax assets of $2,546,182 and $2,049,812 respectively. Net cash provided by operating activities for the year ended June 30, 2008 was primarily due to our net income of $3,916,913.

INVESTING ACTIVITIES – Net cash used in investing activities for the years ended June 30, 2010, 2009, and 2008 was $1,125,394, $61,833 and $52,312 respectively. The $1,125,394 in net cash used in investing activities for the year ended June 30, 2010 was primarily due to purchases of fixed assets of $161,878 and research and development cost of $1,087,684 that were capitalized, offset by the sales of fixed assets of $123,936. The $61,833 and $52,312 in net cash used in investing activities for the years ended June 30, 2009 and 2008 were primarily due to our capital expenditures to purchase long lived assets.

FINANCING ACTIVITIES – Net cash used in financing activities for the years ended June 30, 2010 was $117,908, primarily consisting of repayment of short-term and long-term borrowings of $291,419, offset by the proceeds of short-term borrowings from bank of $173,511. Net cash used in financing activities for the years ended June 30, 2009 and 2008 was $300,600 and $88,605, respectively, primarily consisting of repayment of our long-term liabilities.

CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

The following table summarizes our contractual obligations and commitments as of June 30, 2010, and the effect such obligations could have on our liquidity and cash flow in future periods:

	Payments Due by June 30,				
Lease	2011	2012	2013	2014	Total
Administrative office facility	$ 117,418	$ 19,696	$ -	$ -	$ 137,114
Corporate housing facility	7,220	-	-	-	7,220
Total Obligation	$ 124,638	$ 19,696	$ -	$ -	$ 144,334

On July 27, 2010, we entered into a Common Stock Repurchase Agreement with C-Motech (the “Agreement”), under which we agreed to repurchase 3,370,356 shares of our Common Stock from C-Motech for $3,500,000.

On September 14, 2010, we completed the repurchase and transfer of 1,803,684 shares of our common stock from C-Motech in exchange for non-cash consideration in the amount of $1,873,065. The remaining 1,566,672 shares are to be repurchased by Registrant upon payment of the balance, $1,626,935, on or before December 31, 2010. Pursuant to the Agreement, Kwang Sun Han, a director of the Company and the designee of C-Motech on the Company’s Board of Directors, resigned from the Board of Directors.

LEASES

We lease approximately 6,070 square feet of office space in San Diego, California, at a monthly rent of $9,469, and the lease expires on August 31, 2011. In addition to monthly rent, the lease provides for periodic cost of living increases in the base rent and payment of common area costs. Our facility is covered by an appropriate level of insurance and we believe it to be suitable for our respective use and adequate for our present needs. Rent expense related to the operating lease was $107,704, $107,704, and $62,848 for the years ended June 30, 2010, 2009, and 2008, respectively.

We lease a corporate housing facility for our vendors under a non-cancelable operating lease that expires in November, 2010. Rent expense related to the operating lease was $15,769, $18,194, and $17,829 for the years ended June 30, 2010, 2009, and 2008, respectively.

We lease one automobile under an operating lease that expires on July 4, 2012. The related lease expense was $8,000, $6,467, and $6,452 for the years ended June 30, 2010, 2009, and 2008, respectively.

OFF-BALANCE SHEET ARRANGEMENTS

None.

FUTURE LIQUIDITY AND CAPITAL REQUIREMENTS

For the next twelve months, we may incur in excess of $4.0 million for capital expenditures, the acquisition of additional certifications and non-cash acquisitions.

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

We maintain disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) that are designed to ensure that information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our principal financial officer, as appropriate, to allow timely decisions regarding the required disclosures. In designing and evaluating the disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Our Chief Executive Officer and Acting Chief Financial officer have evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as of June 30, 2010, pursuant to Rule 13a-15(e) and 15d-15(e) of the Exchange Act, based upon the Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on such evaluation, the Chief Executive Officer and Acting Chief Financial officer have concluded that, as of the end of such period, our disclosure controls and procedures were effective.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

There has been no change in our internal control over financial reporting that occurred during the fourth quarter of fiscal year 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

Our management, including our Chief Executive Officer and Acting Chief Financial Officer, does not expect that our disclosure controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no controls can provide absolute assurance that all control issues and instances of fraud, if any, within we have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management or board override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Set forth below are the names, ages, titles and present and past positions of our directors and executive officers.

Name	Age	Position
OC Kim	47	President, Acting Chief Financial Officer, Secretary and a Director
Gary Nelson	69	Chairman of the Board and a Director
Joon Won Jyoung	68	Director
Johnathan Chee	48	Director
Yun J. (David) Lee	48	Chief Operating Officer

OC Kim has been our President, Acting Chief Financial Officer, Secretary and a director since September 2003. Prior to joining us, Mr. Kim was the Chief Operating Officer of Axesstel Inc., a pioneering developer of CDMA Wireless Local Loop Products. Before joining Axesstel, he was the president of U.S. sales office for Kolon Data Communications Co., Ltd., one of Korea's most prominent technology conglomerates. He began his career at Lucky Goldstar (LG) Electronics. He has more than 18 years of experience in sales, marketing, and operations management in the telecommunications and information systems industries. He earned a B.A. from Sogang University in Korea.

Gary Nelson has been a director since April 2001. He is also the co-founder and current President of Churchill Mortgage Corporation, an income property mortgage banking firm based in Los Angeles, California, which is the loan correspondent for the general and real estate separate accounts of major life insurance companies and their pension fund sources. The Churchill portfolio consists of approximately $4.5 billion in loans. In addition, Mr. Nelson is the Chairman of the Board of Directors for Churchill Mortgage of Arizona, Inc., and Churchill Real Estate, Inc. Prior experiences include computer marketing to the aerospace industry with Control Data Corporation and design engineering on the Apollo Project with North American Aviation. He holds a B.S. in Mechanical Engineering from Kansas State University and an MBA from the University of Southern California.

Joon Won Jyoung has been a director since September 2009. He has owned several private companies in South Korea since 1997. Between 1992 and 1996, he served as the President of Sneakers Classic Ltd., and between 1987 and 1991, he was the Chairman of Empire State Bank in New York. Between 1972 and 1982, he was the Chairman of Downtown Mart, a distribution company in New York and Virginia. He holds a B.S. in Mathematics from Seoul National University and an M.S. in Statistics from the University of Connecticut.

Johnathan Chee has been a director since September 2009. He is an attorney and has owned the Law Offices of Johnathan Chee, in Niles, Illinois, since August 2007. Between 1998 and 2007, he served as an attorney with the C&S Law Group, P.C., in Glenview, Illinois. He holds a B.A. from the University of Illinois-Chicago and a J.D. from IIT Chicago-Kent College of Law. He is a member of the Illinois Bar Association.

Yun J. (David) Lee has been our Chief Operating Officer since September 2008. Mr. Lee has seventeen years of upper level management experience in telecommunications, including experience in the cellular telephone business in the U.S. and South America. Prior to joining the Company, he was President of Ace Electronics, and served as Chief Financial Officer and Director of Sales and Marketing for RMG Wireless. Prior to that, he served as Controller and Director of International Sales for Focus Wireless in Chicago.

COMPLIANCE WITH SECTION 16(A) OF EXCHANGE ACT

Section 16(a) of the Securities Exchange Act of 1934 requires officers and directors, and persons who own more than ten percent of our equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission (the "Commission"). Officers, directors and greater than regulations to furnish us with copies of all forms they file pursuant to Section 16(a). Based solely on our review of the copies of such forms it received and written representations from reporting persons required to file reports under Section 16(a), to our knowledge all of the Section 16(a) filing requirements applicable to such persons with respect to fiscal 2009 were complied with.

CODE OF ETHICS

The Board of Directors has adopted a Code of Ethics, which is applicable to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The Code of Ethics covers all areas of professional conduct, including honest and ethical conduct, conflicts of interest, compliance with laws, disclosure obligation, and accountability for adherence to this Code.

CORPORATE GOVERANCE

During fiscal 2010, the Board of Directors held three meetings. Each director except Jaeman Lee attended at least 75% of such meetings. The Board of Directors has no committees. The following table provides director compensation information for the year ended June 30, 2010.

Name and Principal Position	Annual Compensation Salary	Bonus	All Other Compensation	No. of Securities Underlying Non Qualified Stock Options Granted	Total
Gary Nelson Chairman of the Board and a Director	None	$10,000	None	None	$10,000

ITEM 11. EXECUTIVE COMPENSATION.

The following table sets all compensation paid or accrued by us for the years ended June 30, 2010 and 2009 to our Chief Executive Officer and Acting Chief Financial Officer and our Chief Operating Officer (The "Named Executive Officers").

Annual Compensation				All Other Compensation	No. of Securities Underlying Stock Options Granted	Total
Name and Principal Position	Fiscal Year	Salary	Bonus			
OC Kim, President and Acting Chief Financial Officer	2009	$150,000	$32,000	None	97,500	$182,000
	2010	$160,000	$100,000	None	200,000	$260,000
Yun J. (David) Lee, Chief Operating Officer	2009	$120,000	$27,000	None	125,000	$147,000
	2010	$125,000	$80,000	None	100,000	$205,000

Stock Options Granted

Name and Principal Position	Fiscal Year	No. of Securities Underlying Stock Options Granted	No. of Vested Securities Underlying Stock Options Granted	Total fair values at the grant dates
OC Kim, President and Acting Chief Financial Officer	2009	97,500	97,500	$5,265
	2010	200,000	None	$88,200
Yun J. (David) Lee, Chief Operating Officer	2009	125,000	125,000	$11,613
	2010	100,000	None	$44,100

EMPLOYMENT CONTRACTS

On September 21, 2009 we entered into Change of Control Agreements with OC Kim, our President and Acting Chief Financial Officer, Yun J. (David) Lee, our Chief Operating Officer, and Yong Bae Won, our Vice President, Engineering. 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 is for three years and calls for a payment of $5 million upon a change of control; the agreement with Mr. Lee is for two years and calls for a payment of $2 million upon a change of control; and the agreement with Mr. Won is for two years and calls for a payment of $1 million upon a change of control.

On September 21, 2009, we entered into a renewable three-year employment agreement with our President. The annual salary is $170,000.

LONG-TERM INCENTIVE PLAN AWARDS

As we adopted the 2009 Stock Incentive Plan (“2009 Plan”), we provided for the grant of incentive stock options and non-qualified stock options to our employees and directors on June 11, 2009. The options granted in 2009 generally vest and become exercisable at the rate of between 50% and 100% per year with a life between four and five years.

We issued additional options in 2010 under the 2009 Plan. The options granted in 2010 generally vest and become exercisable at the rate of 33% per year with a life of ten years.

We adopted ASC 718, “Compensation – Stock Compensation,” using a modified prospective application, and the Black-Scholes model. Under this application, we are required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. Compensation cost will be recognized over the period that an employee provides service in exchange for the award.

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. Compensation expense recorded under this method for the year ended June 30, 2010 was $59,783 and reduced operating income and income before income taxes by the same amount by increasing compensation expense recognized in selling and administrative expense. The recognized tax benefit related to the compensation expense for the year ended June 30, 2010 was $0.

The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected term of the option; the expected term represents the weighted-average period of time that options granted are expected to be outstanding giving consideration to vesting schedules and using the simplified method; the expected volatility is based upon historical volatilities of the Company’s common stock; and the expected dividend yield is based upon the Company’s current dividend rate and future expectations.

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 at June 30, 2009	447,500	$ 0.48	-	-
Granted	700,000	1.86	-	-
Exercised	-	-	-	-
Forfeited or Expired	(51,500)	(0.61)	-	-
Outstanding at June 30, 2010	1,096,000	$ 1.36	8.1	$ 812,863

Exercisable at June 30, 2010	285,000	$	0.48	-	$ -
Vested and Expected to Vest at June 30, 2010	285,000	$	0.48	-	$ -

The weighted-average grant-date fair value of stock options granted for the year ended June 30, 2010 was $0.30 per share. The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based upon the Company's closing stock price of $2.10 as of June 30, 2010, which would have been received by the option holders had all option holders exercised their options as of that date.

As of June 30, 2010, there was $268,916 of total unrecognized compensation cost related to non-vested stock options granted. That cost is expected to be recognized over a weighted-average period of 2.0 years.

COMPENSATION DISCUSSION AND ANALYSIS

GENERAL PHILOSOPHY - We compensate our executive officers through a mix of base salary, bonus and stock options. Our compensation policies are designed to be competitive with comparable employers and to align management's incentives with both near term and long-term interests of our stockholders. We use informal methods of benchmarking our executive compensation, based on the experience of our directors or, in some cases, studies of industry standards. Our compensation is negotiated on a case by case basis, with attention being given to the amount of compensation necessary to make a competitive offer and the relative compensation among our executive officers.

BASE SALARIES - We want to provide our senior management with a level of cash compensation in the form of base salary that facilitates an appropriate lifestyle given their professional status and accomplishments.

INCENTIVE COMPENSATION - Our practice is to award cash bonuses based upon performance objectives set by the Board of Directors. We maintain a bonus plan which provides our executive officers and non-executive officers the ability to earn cash bonuses based on the achievement of performance targets. The performance targets are set annually by the Board of Directors, and bonuses are awarded to executive officers and non-executive officers on a quarterly basis. The actual amounts of cash bonuses to executive officers and non-executive officers are in the sole discretion of the Board of Directors For fiscal 2010, the performance targets were based on achieving revenue and operating income targets.

SEVERANCE BENEFITS - We are generally an at will employer, and have no employment agreements with severance benefits; however, we have entered into Change of Control Agreements with our executive officers, and one other employee that provide them with lump sum payments in the event off a change in control of the Company.

RETIREMENT PLANS - We do not maintain any retirement plans.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table sets forth certain information regarding the beneficial ownership of our Common Stock as of June 30, 2010 by each director and executive officer of the Company, each person known to us to be the beneficial owner of more than 5% of the outstanding Common Stock, and all directors and executive officers of the Company as a group. Except as otherwise indicated below, each person has sole voting and investment power with respect to the shares owned, subject to applicable community property laws.

	Shares Beneficially Owned	
Name and Address	Number	Percent
OC Kim 5440 Morehouse Drive, Suite 1000, San Diego, CA 92121	1,499,195	10.88%
Gary Nelson 5440 Morehouse Drive, Suite 1000, San Diego, CA 92121	269,562	1.96%
Kwang Sun Han 5440 Morehouse Drive, Suite 1000, San Diego, CA 92121	3,370,356(1)	24.46%
Joon Won Jyoung 5440 Morehouse Drive, Suite 1000, San Diego, CA 92121	540,169	3.92%
Johnathan Chee 5440 Morehouse Drive, Suite 1000, San Diego, CA 92121	7,324	0.05%
All directors and executive officers of the Company as a group (5 persons)	5,686,606	41.27%

(1) Consists of shares owned by C-Motech Co. Ltd., of which Kwang Sun Han is an officer and designee. On May 27, 2010, the Board of Directors appointed Kwang Sun Han to the Board of Directors to fill a vacancy upon the resignation of Jaeman Lee.

On July 27, 2010, we entered into a Common Stock Repurchase Agreement with C-Motech (the “Agreement”), and under the Agreement, we agreed to repurchase 3,370,356 shares of our Common Stock from C-Motech for $3,500,000. Pursuant to the Agreement, Kwang Sun Han, a director of the Company and the designee of C-Motech on the Company’s Board of Directors, resigned from the Board of Directors.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

We purchased wireless data products in the amount of $ 82,631,324 from C-Motech, for the year ended June 30, 2010 and had related accounts payable of $5,371,153 as of June 30, 2010. C-Motech owns 3,370,356 shares, or 24.5%, of our Common Stock and Jaeman Lee, Chief Executive Officer of C-Motech Co. Ltd., has served as a director of the Company since September 2006. On May 27, 2010, the Board of Directors appointed Kwang Sun Han to the Board of Directors to fill a vacancy upon the resignation of Jaeman Lee.

On July 27, 2010, we entered into a Common Stock Repurchase Agreement with C-Motech (the "Agreement"), and under the Agreement, we agreed to repurchase 3,370,356 shares of our Common Stock from C-Motech for $3,500,000. A total of 1,803,684 shares were repurchased on the date of the Agreement in exchange for non-cash consideration in the amount of $1,873,065. The remaining 1,566,672 shares are to be repurchased by Registrant upon payment of the balance, $1,626,935, on or before December 31, 2010. Pursuant to the Agreement, Kwang Sun Han, a director of the Company and the designee of C-Motech on the Company's Board of Directors, resigned from the Board of Directors.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The aggregate fees billed for the two most recently completed fiscal periods for the audit of our annual financial statements and services normally provided by the independent accountant for this fiscal period were as follows:

	FY 2010	FY 2009
Audit Fees	$ 73,000	$ 38,000*
Audit-Related Fees	3,000	-
Tax Fees	5,000	-
Total Fees	$ 81,000	$ 38,000

In the above table, "audit fees" are fees billed by our external auditor for services provided in auditing our company's annual financial statements for the subject year. The fees set forth on the foregoing table for the year ended June 30, 2010 relate to the audit as of and for the year ended June 30, 2010 and 2009, performed by BDO USA, LLP. All of the services described above were approved in advance by the Board of Directors.

*- This does not include $13,500 for quarterly review fees for fiscal year ending June 30, 2009 which was performed by the previous accounting firm, Choi, Kim, & Park, LLP.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) 1. Index to financial statements

(b) Exhibits

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

Exhibit No.	Description
2.1	Articles of Merger and Agreement and Plan of Reorganization, filed January 2, 2008 with the Nevada Secretary of State (1)
3.1	Restated Articles of Incorporation of Franklin Wireless Corp. (1)
3.2	Amended and Restated Bylaws of Franklin Wireless Corp. (2)
10.2	Lease, dated May 1, 2008, between the Company and RDLFA, LLC, a California Limited Liability Company (3)
10.3	Employment Agreement, dated September 21, 2009, between Franklin Wireless Corp. and OC Kim
10.4	Change of Control Agreement, dated September 21, 2009, between Franklin Wireless Corp. and OC Kim (2)
10.5	Change of Control Agreement, dated September 21, 2009, between Franklin Wireless Corp. and David Lee (2)
10.6	Common Stock Repurchase Agreement between Franklin Wireless Corp. and C-Motech Co., dated July 27, 2010 *
14.1	Code of Ethics (3)
31	Certificate of Chief Executive Officer Acting Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certificate of Chief Executive Officer and Acting Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

(2) Incorporated by reference from Annual Report on Form 10-K for the year ended June 30, 2009, filed on October 13, 2009

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

(3) Incorporated by reference from Annual Report on Form 10-KSB for the year ended June 30, 2008, filed on September 26. 2008

* Portions of this exhibit have been omitted pending a determination by the Securities and Exchange Commission as to whether these portions should be granted confidential treatment.

(c) Supplementary Information

None.

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.

By: /s/ OC Kim
OC Kim, President

Dated: October 12, 2010

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

Signature	Title	Date
(1) Principal Executive, Financial and Accounting Officer		
/s/ OC KIM OC Kim	President, Acting Chief Financial Officer and a Director	October 12, 2010
(3) Directors		
/s/ GARY NELSON Gary Nelson	Chairman of the Board of Directors	October 12, 2010
/s/ JOON WON JYOUNG Joon Won Jyoung	Director	October 12, 2010
/s/ JOHNATHAN CHEE Johnathan Chee	Director	October 12, 2010

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FRANKLIN WIRELESS CORP.
INDEX TO FINANCIAL STATEMENTS ON FORM 10-K
FOR THE YEAR PERIOD ENDED JUNE 30, 2010

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Franklin Wireless Corp. and subsidiaries (the "Company") as of June 30, 2010 and 2009 and the related statements of income, stockholders' equity, and cash flows for each of the two years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Franklin Wireless Corp. at June 30, 2010 and 2009, and the results of its consolidated operations and its cash flows for each of the two years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

BDO USA, LLP
Los Angeles, California
October 12, 2010

FRANKLIN WIRELESS CORP.
Consolidated Balance Sheets

	Fiscal Years Ended June 30, 2010 (Consolidated)	2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 16,107,501	$ 6,253,529
Accounts receivable	3,118,754	2,812,607
Inventories	197,630	2,618,344
Prepaid expenses and other current assets	35,453	4,107
Prepaid income taxes	–	18,503
Deferred tax assets, current	372,190	169,731
Advanced payment to vendor	458,034	–
Total current assets	20,289,562	11,876,821
Property and equipment, net	985,303	89,807
Intangible assets, net	2,858,902	–
Deferred tax assets, non-current	1,299,746	1,880,081
Goodwill	273,285	–
Other assets	188,281	11,016
TOTAL ASSETS	$ 25,895,079	$ 13,857,725
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	$ 1,046,602	$ 45,112
Trade accounts payable – related party	5,371,153	4,466,741
Advanced payments from customers	309,000	970
Income taxes payable	929,538	–
Accrued liabilities	732,165	76,202
Marketing funds payable	1,277,319	32,625
Short-term borrowings	173,511	–
Long-term borrowings, current-portion	68,165	–
Total current liabilities	9,907,453	4,621,650
Long-term borrowings	163,596	–
Other long-term liabilities	154,806	
Total liabilities	10,225,855	4,621,650
Stockholders' equity:		
Preferred stock, par value $0.001 per share, authorized 10,000,000 shares; No preferred stock issued and outstanding as of June 30, 2010 and June 30, 2009	–	–
Common stock, par value $0.001 per share, authorized 50,000,000 shares; 13,781,491 and 13,231,491shares issued and outstanding as of June 30, 2010 and June 30, 2009, respectively	13,711	13,232
Additional paid-in capital	5,556,525	5,018,721
Retained earnings	8,981,906	4,204,122

Non-controlling interests	1,129,680	–
Accumulated other comprehensive income (loss)	(12,598)	–
Total stockholders’ equity	15,669,224	9,236,075
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$ 25,895,079	$ 13,857,725

See accompanying notes to financial statements.

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FRANKLIN WIRELESS CORP.
Consolidated Statements of Operations

	Fiscal Years Ended June 30, 2010 (Consolidated)	2009
Net sales	$ 101,898,119	$ 24,000,504
Cost of goods sold	87,873,396	18,824,010
Gross profit	14,024,723	5,176,494
Operating expenses:		
Selling, general, and administrative	6,358,631	2,859,707
Total operating expenses	6,358,631	2,859,707
Income from operations	7,666,092	2,316,787
Other (loss) income, net:		
Interest income	79,005	84,845
Loss on disposal of property and equipment	(123,109)	(19,346)
Other income, net	(40,920)	34,556
Total other (loss) income, net	(85,024)	100,055
Net income before provision (benefit) for income taxes	7,581,068	2,416,842
Income tax provision (benefit)	2,954,326	(1,222,324)
Net income before non-controlling interests	4,626,742	3,639,166
Non-controlling interests in net loss of subsidiary	151,042	–
Net income	$ 4,777,784	3,639,166
Basic earnings per share	$ 0.35	$ 0.28
Diluted earnings per share	$ 0.35	$ 0.27
Weighted average common shares outstanding – basic	13,583,551	13,231,491
Weighted average common shares outstanding – diluted	13,740,582	13,250,417
Comprehensive income		
Net income including non-controlling interest	$4,626,742	$–
Translation adjustments	(12,598)	–
Comprehensive income	4,614,144	–
Comprehensive loss attributable to non-controlling interest	151,042	–
Comprehensive income attributable to controlling interest	$4,765,186	$–

See accompanying notes to financial statements.

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FRANKLIN WIRELESS CORP.
Consolidated Statements of Stockholders' Equity

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive (Loss)	Non-controlling	Total Stockholders’
	Shares	Amount	Capital	Earnings	Income	Interest	Equity
Balance – June 30, 2008	13,231,491	$13,232	$5,016,161	$564,956	$ –	$ –	$5,594,349
Net income	–	–	–	3,639,166	–	–	3,639,166
Share-based compensation	–	–	2,560	–	–	–	2,560
Balance – June 30, 2009	13,231,491	13,232	5,018,721	4,204,122	–	–	9,236,075
Net income	–	–	–	4,777,784	–	–	4,777,784
Foreign exchange translation	–	–	–	–	(12,598)	–	(12,598)
Total comprehensive income							4,765,186
Non-controlling interests on acquisition date, October 1, 2009	–	–	–	–	–	1,280,722	1,280,722
Change in non-controlling interests	–	–	–	–	–	(151,042)	(151,042)
Share-based compensation	–	–	59,783	–	–	–	59,783
Issuance of stock related to acquisition	550,000	479	478,021	–	–	–	478,500
Balance – June 30, 2010	13,781,491	$13,711	$5,556,525	$8,981,906	$ (12,598)	$ 1,129,680	$15,669,224

FRANKLIN WIRELESS CORP.
Consolidated Statements of Cash Flows

	Fiscal Years Ended June 30, 2010 (Consolidated)	2009
CASH FLOWS FROM OPERATIONS ACTIVITIES:		
Net income	$ 4,777,784	$ 3,639,166
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Non-controlling interests	(151,042)	
Loss on disposal of property and equipment	123,109	19,346
Depreciation	63,502	20,692
Amortization of intangible assets	269,781	–
Write off of uncollectible accounts receivable	6,000	2,715
Forgiveness of debt	–	(33,400)
Deferred tax assets	(103,414)	(2,049,812)
Share-based compensation	59,783	2,560
Increase (decrease) in cash due to change in:		
Accounts receivable	(166,278)	1,718,747
Inventory	2,420,714	(2,546,182)
Advance payment to vendor	(457,524)	–
Prepaid expense and other current assets	43,507	19,323
Prepaid income taxes	18,503	336,890
Other assets	(106,852)	4,395
Trade accounts payable, including related party	1,515,944	464,202
Income taxes payable	929,538	–
Accrued liabilities	430,685	(766,219)
Marketing funds payable	1,244,694	–
Advance payment from customers	45,866	(389,030)
Other liabilities	145,572	–
Net cash provided by (used in) operating activities	11,109,872	443,393
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(161,646)	(61,833)
Capitalized product development	(1,087,684)	–
Proceeds from sale of property and equipment	123,936	–
Net cash used in investing activities	(1,125,394)	(61,833)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of note payable	–	(300,600)
Payment of short-term borrowings	(264,153)	–
Payment of long-term borrowing	(27,266)	–
Proceeds from short-term borrowings from bank	173,511	–
Net cash provided by (used in) financing activities	(117,908)	(300,600)
Effect of foreign currency translation	(12,598)	–

Net increase in cash and cash equivalents		9,853,972		80,960
Cash and cash equivalents, beginning of year		6,253,529		6,172,569
Cash and cash equivalents, end of year	$	16,107,501	$	6,253,529
Supplemental disclosure of cash flow information:				
Cash paid during the years for:				
Interest	$	–	$	–
Income taxes	$	2,128,202	$	1,173,046

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Supplemental disclosure of non cash investing activities:

On October 1, 2009, the Company acquired a business, (see Note 4). The following table summarizes the purchase transaction on the date of acquisition:	
Purchase price:	
Cash	$833,333
Issuance of common shares	478,500
Total purchase price	1,311,833
Less: fair value of	
Assets acquired (including cash acquired of $232)	(2,177,923)
Liabilities assumed	3,180,375
Excess purchase price over fair value of net assets acquired	2,315,285
Less identifiable intangible assets	2,041,000
Goodwill	$273,285

See accompanying notes to financial statements.

FRANKLIN WIRELESS CORP. AND ALL SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BUSINESS OVERVIEW

We are engaged in the design, manufacture and sale of broadband high speed wireless data communication products such as third generation ("3G") and fourth generation ("4G") wireless modules and modems. We focus primarily on wireless broadband Universal Serial Bus ("USB") modems, which provide a flexible way for consumers to connect to wireless broadband networks from laptop or desktop computers. Our broadband wireless data communication products are positioned at the convergence of wireless communications, mobile computing and the Internet, each of which we believe represent a growing market.

We market our products directly to wireless operators, and indirectly through strategic partners and distributors. Our global customer base extends primarily from the United States to South American and Caribbean countries. Our USB modems are certified by Sprint, Comcast Cable, Cox, Clearwire, Time Warner Cable and other wireless operators located in the United States and also by wireless operators located in other countries in South America and the Caribbean.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, a wholly-owned subsidiary, and a subsidiary with a majority voting interest of 50.6% (49.4% is owned by non-controlling interests). In the preparation of consolidated financial statements of the Company, all intercompany balances and transactions have been eliminated.

As consolidated financial statements are based on the assumption that they represent the financial position and operating results of a single economic entity, the retained earnings or deficit of a subsidiary at the date of acquisition, October 1, 2009, by the parent are excluded from consolidated retained earnings. When a subsidiary is consolidated during the year ended June 30, 2010, the consolidated financial statements include the subsidiary's revenues, expenses, gains, and losses only from the date the subsidiary is initially consolidated, and the noncontrolling interest is reported in the consolidated statement of financial position within equity, separately from the parent's equity. That amount is clearly identified and labeled. There are no shares of the Company held by the subsidiaries as of June 30, 2010.

Segment Reporting

ASC 280, "Segment Reporting," requires public companies to report financial and descriptive information about their reportable operating segments. We identify our operating segments based on how management internally evaluates separate financial information, business activities and management responsibility. We have one reportable segment, consisting of the sale of wireless access products.

We generate revenues from three geographic areas which consist of the United States, the Caribbean and South America 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:

Net sales:	Fiscal Year Ended June 30, 2010	2009
United States	$ 98,404,968	$ 14,334,956
Caribbean and South America	2,858,225	9,665,548
Asia	634,926	–
Totals	$ 101,898,119	$ 24,000,504

Long-lived assets, net:	June 30, 2010	June 30, 2009
United States	$ 110,913	$ 89,807
Asia	3,733,292	–
Totals	$ 3,844,205	$ 89,807

Fair Value of Financial Instruments

We are required to disclose the estimated fair value of certain assets and liabilities in accordance with ASC-825-10, “financial instruments”. As of June 30, 2010, management believes that the carrying value of cash and cash equivalents, receivables and payables approximates fair value, due to the short maturity of theses financial instruments. (See “Note 3”).

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.

Allowance for Doubtful Accounts

We do not maintain an allowance for doubtful accounts based upon our review of our collection history associated with all significant outstanding invoices.

Revenue Recognition

We recognize revenue in accordance with ASC 605, “Revenue Recognition,” when persuasive evidence of an arrangement exists, the price is fixed or determinable, collection is reasonably assured and delivery of products has occurred or services have been rendered. Accordingly, we recognize revenues from product sales upon shipment of the product to the customers or when the products are received by the customers in accordance with shipping or delivery terms. We provide a factory warranty for one year from the shipment, which is covered by our vendors under the purchase agreements.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current period presentation. We didn’t make any reclassifications for the year ended June 30, 2010 to prior year amounts.

Capitalized Product Development

Capitalized product development includes payroll, employee benefits, and other headcount-related expenses associated with product development. Once technological feasibility is reached, which is generally shortly before the products are released to manufacturing, such costs are capitalized and amortized over the estimated lives of the products. For the year ended June 30, 2010, capitalized product development was $1,087,684, and included in intangible assets in our consolidated balance sheet.

Advertising and Promotion Costs

Costs associated with advertising and promotions are expensed as incurred. Advertising and promotion costs amounted to $113,745 and $40,677 for the years ended June 30, 2010 and 2009, respectively.

Warranties

We provide a factory warranty for one year which is covered by our vendor under the purchase agreement between the Company and the vendor. These products are shipped directly from our vendor to our customers. As a result, we do not have warranty exposure and do not accrue any warranty expenses.

Shipping and Handling Costs

Most of the Company's shipping and handling costs are paid by customers or suppliers directly to the shipping locations. We generally do not collect and incur shipping and handling costs. As a result, we did not incur any significant shipping and handling costs for the year ended June 30, 2010.

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 are made up of finished goods and are stated at the lower of cost or market, cost being determined on a first-in, first-out basis. We assess the inventory carrying value and reduce it, if necessary, to its net realizable value based on customer orders on hand, and internal demand forecasts using management's best estimates given information currently available. Our customer demand is highly unpredictable, and can fluctuate significantly caused by factors beyond the control of the Company. We do not maintain an allowance for inventories for potential excess or obsolete inventories or inventories that are carried at costs that are higher than their estimated net realizable values.

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:

Building	40 years
Machinery	6 years
Office equipment	5 years
Molds	3 years
Vehicles	5 years
Computers and software	5 years
Furniture and fixtures	7 years
Facilities	5 years
Capitalized product development in progress	

Goodwill and Intangible Assets

On October 1, 2009, we acquired approximately 50.6% of the outstanding capital stock of Diffon Corporation ("Diffon"), which provides design, development and manufacturing services to the Company for high speed wireless data communication products including 3G and 4G wireless modules and modems. In accordance with ASC 805, "Business Combinations," we have identified and determined the fair values of the following intangible assets of Diffon, on October 1, 2009, the date of acquisition:

Complete technology	$	490,000	3 years
Customer contracts / relationships		1,121,000	8 years
		430,000	

Capitalized product development in progress	
Total	$ 2,041,000

Goodwill and intangible assets are recorded in connection with the Diffon acquisition and are accounted for in accordance with ASC 805, “Business Combinations.” Goodwill represents 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. The capitalized product development in progress of $430,000 has achieved its technological feasibility as of June 30, 2010. Goodwill and other intangible assets are accounted for in accordance with ASC 350, “Goodwill and Other Intangible Assets.” Goodwill is tested for impairment at least annually and any related impairment losses are recognized in earnings when identified.

Intangible Assets

The definite lived intangible assets consisted of the following at June 30, 2010:

Definite lived intangible assets:	Expected Life	Average Remaining Life		Gross Intangible Assets		Accumulated Amortization		Net Intangible Assets
Complete technology	3 years	2.3 years	$	490,000	$	122,500	$	367,500
Complete technology	3 years	2.8 years		1,517,683		42,186		1,475,497
Customer contracts / relationships	8 years	7.3 years		1,121,000		105,095		1,015,905
Total			$	3,128,683	$	269,781	$	2,858,902

The amortization expenses of the definite lived intangible assets for the next five years and thereafter total as follows:

	FY2011	FY2012	FY2013	FY2014	FY2015	Thereafter
Total	$809,353	$809,353	$644,666	$140,125	$140,125	$315,280

Long-lived Assets

In accordance with ASC 360, “Property, Plant, and Equipment,” we review for impairment of long-lived assets and certain identifiable intangibles whenever events or circumstances indicate that the carrying amount of assets may not be recoverable. We consider the carrying value of assets may not be recoverable based upon our review of the following events or changes in circumstances: the asset’s ability to continue to generate income from operations and positive cash flow in future periods; loss of legal ownership or title to the assets; significant changes in our strategic business objectives and utilization of the asset; or