FRANKLIN WIRELESS CORP
Form 10QSB
May 24, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: December 31, 2005

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from ____________ to _____________

Commission file number 0-11616

FRANKLIN WIRELESS CORP.
(Exact name of small business issuer in its charter)

California	95-3733534
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

9853 Pacific Heights Suite N, San Diego, California 92121
(Address of Principal Executive Offices) (Zip Code)

(858) 623-0000
Issuer's Telephone Number, Including Area Code:

Securities registered pursuant to Section 12(b) of the Act:

None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, without par value

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES [ ] NO [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]

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

TITLE OF EACH CLASS OF COMMON STOCK	OUTSTANDING AT April 15, 2006
Common Stock, no par value	835,040,550

Transitional Small Business Disclosure format (Check one): YES [ ] NO [X]

FRANKLIN WIRELESS CORP.
INDEX

PART I - FINANCIAL INFORMATION

PART II - OTHER INFORMATION

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FRANKLIN WIRELESS CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

THREE MONTHS ENDED DECEMBER 31, S

	2005	2004	200
Net sales	$ 80,500	$ 110,810	$ 16
Cost of goods sold	42,700	103,200	6
Gross profit	37,800	7,610	10
Operating expenses:			
Selling, general and administrative	181,638	163,729	28
Research and development	--	--	3
Total operating expenses	181,638	163,729	32
Loss from operations	(143,838)	(156,119)	(22
Other income, net	14,814	446	1
Net loss before income taxes	(129,024)	(155,673)	(20
Provision for income taxes	800	800	
Net loss	$ (129,824)	$ (156,473)	$ (20
Basic loss per share	$ (0.0002)	$ (0.0002)	$ (0
Diluted loss per share	$ (0.0002)	$ (0.0002)	$ (0
Weighted average common shares outstanding:			
Basic	812,640,050	773,040,050	804,24
Diluted	812,640,050	773,040,050	804,24

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS.

FRANKLIN WIRELESS CORP.
CONSOLIDATED BALANCE SHEETS

	(UNAUDITED) DECEMBER 31, 2005	JUNE 30, 2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 207,794	$ 39,542
Accounts receivable	10,250	--
Total current assets	218,044	39,542

Property and equipment, net	13,657	14,921
Intangible asset	75,417	97,917
Other assets	2,107	2,107
TOTAL ASSETS	$ 309,225	$ 154,487
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$ 31,001	$ 17,926
Accrued liabilities	194,581	150,147
Notes payable to stockholders, current portion	560,000	590,000
Total current liabilities	785,582	758,073
Notes payable to stockholders, long-term portion	--	--
Other long-term liabilities	3,878	3,878
Total liabilities	789,460	761,951
Stockholders' deficit:		
Common stock, no par value, authorized 900,000,000 shares and Preferred stock, no par value, authorized 10,000,000 shares; Common stock issued and outstanding 835,040,050 as of December 31, 2005 and 793,040,050 as of June 30, 2005 and no Preferred stocks issued and outstanding.	--	--
Additional paid-in capital	4,119,393	3,784,393
Stock subscription receivable	(17,395)	(17,395)
Accumulated deficit	(4,582,233)	(4,374,462)
Total stockholders' deficit	(480,235)	(607,464)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 309,225	$ 154,487

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS.

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

	SIX MONTHS ENDED DECEMBER 31,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(207,770)	$(469,792)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	25,600	25,600

Increase (decrease) in cash due to change in:		
Accounts receivable	(10,250)	99,390
Other assets	--	5,317
Accounts payable	13,075	--
Accrued liabilities	44,434	29,909
Net cash used in operating activities	(134,911)	(309,576)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,837)	(3,000)
Net cash used in investing activities	(1,837)	(3,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings (payments) from (to) stockholders	(30,000)	30,000
Proceeds from issuance of common stock	335,000	120,450
Net cash provided by financing activities	305,000	150,450
Net decrease in cash	168,252	(162,126)
Cash and cash equivalents, beginning of year	39,542	209,048
Cash and cash equivalents, end of period	$ 207,794	$ 46,922
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ --	$ --
Incomes taxes	$ 800	$ 800

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS.

FRANKLIN WIRELESS CORP.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF OPERATIONS

Franklin Wireless Corp. ("Franklin" or the "Company") designs, builds, and markets broadband high speed data communication products such as 3G wireless modules and modems. Franklin is dedicated to serving the global wireless community by becoming a leading developer/marketer of wireless communications devices and enabling technologies, as well as an applications provider catering to the dynamic needs of its customers, global wireless carriers In addition, service for its technology is provided to vertical application companies.

The Company's products are marketed through Original Equipment Manufacturers ("OEMs") and distributors, as well as directly to operators and end users. The Company's customers are located primarily in the United States, Canada, South

America, Asia, and parts of Europe in a wide range of industries including cellular operators, government, PC maker, and application integrator. In summary, the Company's products are marketed to cellular operators for end-users as well as computer/handheld computing industry, automotive industry, telemetry, other vertical markets.

NOTE 2 - GOING CONCERN MATTERS

The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP"), which contemplate continuation of the Company as a going concern. The Company incurred a net loss of $207,770 and had negative cash flows from operations of $134,911 during the six months ended December 31, 2005. These factors raise substantial doubt about the Company's ability to continue as a going concern.

Recovery of the Company's assets is dependent upon future events, the outcome of which is indeterminable. The Company's attainment of profitable operations is dependent upon its obtaining adequate debt and equity financing and achieving a level of sales adequate to support the Company's cost structure. In addition, realization of a major portion of the assets in the accompanying balance sheet is dependent upon the Company's ability to meet its financing requirements and the success of its plans to sell its products. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence. Management plans to raise additional equity capital, continue to develop its products, and market the products.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION AND SEGMENT REPORTING

The accompanying consolidated financial statements include the accounts of Franklin and ARG. ARG is a wholly owned subsidiary in South Korea that designs the cellular phone. All inter-company balances and transactions have been eliminated in consolidation.

The Company has two reportable segments as defined by SFAS No. 131, Disclosure About Segments of an Enterprise and Related Information. The Company's subsidiary located in South Korea, ARG, was not active and in operation during the six months ended December 31, 2005 and 2004. Furthermore, all of its subsidiary's assets were written off during the fiscal year 2004 as the operation was shut-down during the period. As a result, the Company's consolidated financial statements include $550,000 of debt from ARG financial statements. During the latter part of 2003, the Company discontinued its financial support and operations of ARG but kept the business as an inactive subsidiary for future use. The subsidiary will be used for supporting manufacturing and sourcing new product and business in the future.

USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

REVENUE RECOGNITION

The Company recognizes revenue when persuasive evidence of an arrangement exists, the price is fixed or determinable, collection is reasonably assured and delivery of products has occurred or services have been rendered. Accordingly, the Company recognizes revenues from product sales upon shipment of the product to the customers. The Company does not allow the right of return on product sales but warrant the products over one year from the shipment. Allowance for doubtful accounts is estimated based on estimates of losses related to customer receivable balances. Estimates are developed by using standard quantitative measures based on historical losses, adjusting for current economic conditions and, in some cases, evaluating specific customer accounts for risk of loss. The establishment of reserves requires the use of judgment and assumptions regarding the potential for losses on receivable balances. Though the Company considers these balances adequate and proper, changes in economic conditions in specific markets in which the Company operates could have a material effect on reserve balances required.

CASH AND CASH EQUIVALENTS

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

PROPERTY AND EQUIPMENT

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

Computers and software	5 years
Machinery and equipment	5 years
Furniture and fixtures	5 years

Expenditures for maintenance and repairs are charged to operations as incurred while renewals and betterments are capitalized. Gains or losses on the sale of property and equipment are reflected in the statements of operations.

INTANGIBLE ASSETS - LICENSES

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

IMPAIRMENT OF LONG-LIVED ASSETS

The Company, in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for Impairment on Disposal of Long-lived Assets", reviews for impairment of long-lived assets and certain identifiable intangibles whenever events or circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss would be recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. As of December 31, 2005, the Company is not aware of any events or changes in circumstances that would indicate that the long-lived assets are impaired.

WARRANTIES

The Company does not provide any warranties on its products. However, the manufacturer provides limited warranties up to one year from the date of the sale to the Company's customers. These products are shipped directly from the manufacturer to the customers. As a result, the Company is not required to and does not accrue any warranty expenses.

ADVERTISING AND MARKETING COSTS

The company expenses the costs of advertising and marketing as incurred. The Company incurred no advertising and marketing expenses during the three and six months ended December 31, 2005 and 2004.

INCOME TAXES

The Company accounts for income taxes under the asset and liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is required when it is less likely than not that the Company will be able to realize all or a portion of its deferred tax assets.

LOSS PER SHARE

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

CONCENTRATIONS OF CREDIT RISK

The Company sells its products throughout the United States and South America and extends credit to its customers and performs ongoing credit evaluations of such customers. The Company evaluates its accounts receivable on a regular basis for collectibility and provides for an allowance for potential credit losses as deemed necessary.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2005 and June 30, 2005 consisted of the following:

	(Unaudited) December 31, 2005	June 30, 2005
Computers and software	$ 24,062	$ 22,224
Machinery and equipment	3,000	3,000
Furniture and fixtures	8,713	8,713

	35,775	33,937
Less accumulated depreciation	(22,118)	(19,016)
TOTAL	$ 13,657	$ 14,921

NOTE 5 - INVESTMENT IN SUBSIDIARY

In April 2002, the Company invested $384,615 in its wholly owned subsidiary in South Korea for R&D and manufacturing support. Since August 2003 and as of December 31, 2005 and June 30, 2005, ARG has been inactive.

NOTE 6 - INTANGIBLE ASSETS

The Company purchased licenses to design phone and data communication products. Below are the details for the licenses.

	(Unaudited) December 31, 2005	June 30, 2005
GSM software license	$ 200,000	$ 200,000
Text input methods licenses	25,000	25,000
	225,000	225,000
Less accumulated amortization	(149,583)	(127,083)
Net Balance	$ 75,417	$ 97,917

Amortization expense associated with intangible assets was $11,250 for the three months ended December 31, 2005 and 2004 and $22,500 for the six months ended December 31, 2005 and 2004.

GSM software license was contracted with a supplier for the Company to design GSM phone and module and was paid in September of 2002. This software license has an approximate life of 5 years based on the life of the GSM software.

Text input method license was paid in October of 2002 and has an approximate life of 5 yeas or the life of the text input license.

NOTE 7 - OTHER ASSETS

Other assets as of December 31, 2005 and June 30, 2005 consisted of facility lease and utility deposits.

NOTE 8 - NOTES PAYABLE TO STOCKHOLDERS

	(Unaudited) December 31, 2005	June 30, 2005
Promissory Note	$ 10,000	$ 10,000

Promissory Note	--	30,000
Non-interest Bearing Note	550,000	550,000
Total	560,000	590,000
Less current portion	(560,000)	(590,000)
Long-term portion	$ --	$ --

The Company issued a non-interest bearing promissory note in the amount of $10,000 to the Company's former chief technology officer on June 30, 2004. This note is due upon demand.

During June 2005, the Company issued a promissory note to its stockholder in the amount of $30,000 with no interest. The note is convertible to the Company's common stocks upon issuance at the option of the holder at exercise price on the date of issuance, or $0.005. The note was converted to the Company's common stock at $0.005 on November 11, 2005.

On August 20, 2002, the Company's wholly owned subsidiary, ARG, issued a promissory note to a stockholder in the amount of $550,000, bearing interest at 10%, due on March 20, 2004. The Company and the stockholder agreed to change the

promissory note to a convertible promissory note during the year ended June 30, 2004. The note is convertible into shares of Common Stock at the option of the holder at a conversion price equal to the fair value of the Company's Common Stock on the date of issuance, or $0.005 per share. As of December 31, 2005, this note was outstanding and had not been converted.

NOTE 9 - ACCRUED LIABILITIES

Accrued liabilities at December 31, 2005 and June 30, 2005 consisted of the following:

	(Unaudited) December 31, 2005	June 30, 2005
Salaries	$129,750	$111,000
Other accrued liabilities	64,831	39,147
TOTAL	$194,581	$150,147

NOTE 10 - COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

The Company leases its administrative facilities under a non-cancelable operating lease that expire on April 30, 2007. In addition to the minimum annual rental commitments, the leases provide for periodic cost of living increases in the base rent and payment by the Company of common area costs. Rent expense related to the operating lease was $6,890 and $19,163 for the three months ended December 31, 2005 and 2004, respectively, and $13,058 and $33,010 for the six months ended December 31, 2005 and 2004, respectively.

LITIGATION

During June 2005, the Company's landlord filed a suit against the Company alleging that the Company defaulted under the terms and conditions of the Company's lease agreement when the Company failed to pay for its facility lease valued at $18,221. The parties have settled at $9,308, to be paid in twelve equal monthly installments on December 6, 2005.

In addition, the Company is involved in certain legal proceedings and claims which arise in the normal course of business. Management does not believe that the outcome of these matters will have any material adverse effect on the Company's consolidated financial condition.

SUPPLY AND PURCHASE AGREEMENTS

In May 2005, the Company entered into a contract for low cost GSM phone and a worldwide distribution agreement with a design and manufacturing company. The agreement provides for a one-year term and may be extended on a year-to-year basis thereafter.

NOTE 11 - EARNINGS PER SHARE

Basic earnings per share ("EPS") excludes dilution and is computed by dividing net income or loss attributable to common shareholders by the weighted-average number of common shares outstanding for the period. As of December 31, 2005 and June 30, 2005, the Company did not have any dilutive common stock shares.

NOTE 12 - SUBSEQUENT EVENTS

REPURCHASE OF SHARES

The Company has agreed to repurchase the shares held by Hanjin Jhun, its former Chief Executive Officer, for the price paid by Mr. Jhun, $.005 per share. Mr. Jhun, who resigned during the third quarter of fiscal 2006, holds approximately 20,000,000 shares. The Company plans to repurchase the shares for cash during the fourth quarter of its 2006 fiscal year.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto included in Item 1 of this filing and the financial statements and notes thereto and Management's Discussion and Analysis or Plan of Operation contained in the Company's Form 10-KSB for the year ended June 30, 2005.

BUSINESS OVERVIEW

Franklin Wireless Corp. ("Franklin" or the "Company") designs, builds, and markets broadband high speed data communication products such as 3G wireless modules and modems. Franklin is dedicated to serving the global wireless community by becoming a leading developer/marketer of wireless communications devices and enabling technologies, as well as an applications provider catering to the dynamic needs of its customers, global wireless carriers In addition, service for its technology is provided to vertical application companies.

The Company's products are marketed through Original Equipment Manufacturers ("OEMs") and distributors, as well as directly to operators and end users. The Company's customers are located primarily in the United States, Canada, South America, Asia, and parts of Europe in a wide range of industries including cellular operators, government, PC maker, and application integrator. In summary, the Company's products are marketed to cellular operators for end-users as well as computer/handheld computing industry, automotive industry, telemetry, other vertical markets.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

REVENUE RECOGNITION

The Company recognizes revenue when persuasive evidence of an arrangement exists, the price is fixed or determinable, collection is reasonably assured and delivery of products has occurred or services have been rendered. Accordingly, the Company recognizes revenues from product sales upon shipment of the product to the customers. The Company does not allow the right of return on product sales but warrant the products over one year from the shipment. Allowance for doubtful accounts is estimated based on estimates of losses related to customer receivable balances. Estimates are developed by using standard quantitative measures based on historical losses, adjusting for current economic conditions and, in some cases, evaluating specific customer accounts for risk of loss. The establishment of reserves requires the use of judgment and assumptions regarding the potential for losses on receivable balances. Though the Company considers these balances adequate and proper, changes in economic conditions in specific markets in which the Company operates could have a material effect on reserve balances required.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company, in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for Impairment on Disposal of Long-lived Assets", reviews for impairment of long-lived assets and certain identifiable intangibles whenever events or circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss would be recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. As of December 31, 2005, the

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

INCOME TAXES

The Company accounts for income taxes under the asset and liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is required when it is less likely than not that the Company will be able to realize all or a portion of its deferred tax assets.

RESULTS OF OPERATIONS

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

THREE MONTHS ENDED DECEMBER 31, 2005 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 2004

NET SALES - Net sales decreased by $30,310 or 27.4%, to $80,500 for the three months ended December 31, 2005 from $110,810 for the corresponding period of 2004. The decrease is primarily due to certain products being in the testing phase by certain customers during the 2005 quarter period and as a result, not being available for sale.

GROSS PROFIT - Gross profit increased in terms of net sales percentage as the percentage of gross profit, which was 47.0% for the three months ended December 31, 2005, compared to 6.9% for the corresponding period of 2004. The gross profit percentage increase can be attributed to its shift from phone sales to module sales, a more profitable product.

SELLING, GENERAL, AND ADMINISTRATIVE - Selling, general, and administrative expenses increased by $17,909, or 10.9%, to $181,638 for the three months ended December 31, 2005 from $163,729 for the corresponding period of 2004. The decrease can be attributed to cost savings from cutting back the general and administrative infrastructure during the three months ended December 31, 2005 compared to the corresponding period of 2004.

OTHER INCOME - Other income increased by $14,368, or 3,221.4%, to $14,814, for the three months ended December 31, 2005 from $446 for the corresponding period of 2004. This is primarily due to a settlement of an account payable with a customer in an amount less than what had been accrued.

SIX MONTHS ENDED DECEMBER 31, 2005 COMPARED TO SIX MONTHS ENDED DECEMBER 31, 2004

NET SALES - Net sales increased by $43,450, or 37.2%, to $160,390 for the six months ended December 31, 2005 from $116,940 for the corresponding period of 2004. The change is principally due to the shift in the Company's business strategy, from being a product engineering company to a product development/marketing company.

GROSS PROFIT - Gross profit increased in terms of net sales percentage as the percentage of gross profit, which was 62.5% for the six months ended December 31, 2005, compared to 6.6% for the corresponding period of 2004. The gross profit percentage increase can be attributed to its shift from being a product engineering and sales company to a product development/marketing company and the module products having higher gross profit margins compared to other products.

12

SELLING, GENERAL, AND ADMINISTRATIVE - Selling, general, and administrative expenses decreased by $191,748, or 40.2%, to $285,372 for the six months ended December 31, 2005 from $477,120 for the corresponding period of 2004. The decrease can be attributed to decreased sales/marketing efforts, a reduced engineering group, accounting charges and cost savings from cutting back the general and administrative infrastructure.

RESEARCH AND DEVELOPMENT - Research and development expenses of $36,300, mainly attributable for the design of a phone product, were incurred during the six months ended December 31, 2005. No research and development costs were incurred during the six months ended December 31, 2004

OTHER INCOME - Other income increased by $14,124, or 3642.2%, to $14,512 for the six months ended December 31, 2005 from $388 for the corresponding period of 2004. This is primarily due to a settlement of an account payable with a customer in an amount less than what had been accrued.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents increased by $168,252, to $207,794 as of December 31, 2005 compared to $39,542 as of June 30, 2005. The increase was primarily from the issuance of equity securities, offset by operating losses.

The Company believes that its current negative working capital of $567,538 and anticipated working capital to be generated by future operations will not be sufficient to support the Company's working capital requirements through December 31, 2006. Accordingly, the Company will have to rely on outside financing.

OPERATING ACTIVITIES - Net cash used in operating activities amounted to $134,911 and $309,576 for the six months ended December 31, 2005 and 2004, respectively. The decrease from the prior period relates mainly to reduced engineering expense, including payroll expense, by terminating the outside service and focusing on research and development for the Company's own module

INVESTING ACTIVITIES - Net cash used in investing activities totaled $1,837 and $3,000 for the six months ended December 31, 2005 and 2004, respectively, consisting of capital expenditures.

FINANCING ACTIVITIES - Net cash provided by financing activities for the six months ended December 31, 2005 and 2004 totaled $305,000 and $150,450, respectively, which consisted of proceeds from issuances of common stock.

CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

The Company's principal future obligations and commitments as of December 31, 2005, include the following:

LEASES

The Company leases its administrative facilities under a non-cancelable operating lease that expires on April 30, 2007. In addition to the minimum annual rental commitments, the lease provides for periodic cost of living increases in the base rent and payment by the Company of common area costs. Rent expense related to the operating lease was $6,890 and $19,163 for the three months ended December 31, 2005 and 2004, respectively, and $13,058 and $33,010 for the six months ended December 31, 2005 and 2004, respectively.

LITIGATION

During June 2005, the Company's landlord filed a suit against the Company alleging that the Company defaulted under the terms and conditions of the Company's lease agreement when the Company failed to pay for its facility lease valued at $18,221. The parties have settled at $9,308, to be paid in twelve equal monthly installments commencing on December 6, 2005.

In addition, the Company is involved in certain legal proceedings and claims which arise in the normal course of business. Management does not believe that the outcome of these matters will have a material adverse effect on the Company's consolidated financial condition.

SUPPLY AND PURCHASE AGREEMENTS

In May 2005, the Company entered into a contract for low cost GSM phone and a worldwide distribution agreement with a design and manufacturing company. The agreement provides for a one-year term and may be extended on a year-to-year basis thereafter.

ITEM 3. CONTROLS AND PROCEDURES

At the end of the period covered by this Form 10-QSB, the Company carried out an evaluation, under the supervision and with the participation of members of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our company's disclosure controls and procedures pursuant to Rule 13a-15(b) of the U.S. Securities Exchange Act of 1934 (the "Exchange Act"). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2005, our disclosure controls and procedures, related to internal control over financial reporting and the recording of certain equity transactions, were not effective in light of the material weaknesses described below.

1. INADEQUATE FINANCIAL STATEMENT PREPARATION AND REVIEW PROCEDURES - We do not have adequate procedures and controls to ensure that accurate financial statements can be prepared and reviewed on a timely basis, including insufficient

   a. review and supervision within the accounting and finance departments;

b. underlying accurate data to ensure that balances are properly summarized and posted to the general ledger; and

c. technical accounting resources.

2. INADEQUATE SEGREGATION OF DUTIES - We do not have adequate procedures and controls in place to ensure proper segregation of duties within the accounting department. As a result, adjustments in the financial statements could occur and not be prevented or detected by our controls in a timely manner.

3. INADEQUATE TECHNICAL ACCOUNTING EXPERTISE - We lacked the necessary depth of personnel with adequate technical accounting expertise to ensure the preparation of interim and annual financial statements in accordance with GAAP. This material weakness represented more than a remote likelihood that a material misstatement of our interim financial statements for the six months ended December 31, 2005 would not have been prevented or detected.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projection of any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

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

On November 11, 2005, the Company issued 6,000,000 shares of Common Stock upon conversion of a $30,000 promissory note, at a conversion rate of $0.005 per share.

Also on November 11, 2005, the Company issued 36,000,000 shares of Common Stock for cash, at a purchase price of $0.0085 per share, or an aggregate of $305,000 to an unaffiliated investor.

The Company believes that each of the foregoing transactions was exempt from the registration requirements of the Securities Act of 1933, as amended by reason of Section 4(2) thereof and Regulation D thereunder.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31.1 Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certificate of Acting Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certificate of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certificate of Acting Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

Franklin Wireless Corp.

Dated: May 24, 2006 By: /s/ OC Kim

OC Kim
President and Acting Chief Financial Officer