

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For fiscal year ended June 30, 2022

OR

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

For the transition period from _____ to _____.

Commission file number: 001-14891

FRANKLIN WIRELESS CORP.

(Exact name of Registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

95-3733534

(I.R.S. Employer Identification Number)

9707 Waples Street

Suite 150

San Diego, California

(Address of principal executive offices)

92121

(Zip code)

(858) 623-0000

Registrant'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, 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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes No

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

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, 2021, as reported by the NASDAQ, was approximately \$36,716,000. 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 11,684,280 shares of common stock outstanding as of September 13, 2022.

FRANKLIN WIRELESS CORP.
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FOR THE FISCAL YEAR ENDED JUNE 30, 2022

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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:

- o the terms "we," "us," "our," "Franklin," "Franklin Wireless," or the "Company" refer to Franklin Wireless Corp.
- o our fiscal year ends on June 30; references to fiscal 2022 and fiscal 2021 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 Operations," 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 a leading provider of intelligent wireless solutions including mobile hotspots, routers, trackers, and other devices. Our designs integrate innovative hardware and software enabling machine-to-machine (M2M) applications and the Internet of Things (IoT). Our M2M and IoT solutions include embedded modules, modems and gateways built to deliver reliable always-on connectivity supporting a broad spectrum of applications based on fifth generation and fourth generation (5G/4G) wireless technology.

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

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

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.

The consolidated financial statements include the accounts of the Company and its subsidiary with a majority voting interest of 66.3% (33.7% is owned by non-controlling interests) as of June 30, 2022 and 2021. For the year ended June 30, 2020, the increase in the majority voting interest in percentage from 64.2% to 66.3% was due to the purchase by the Company of 43,333 shares of the subsidiary for \$75,000 (\$1.73 per share) from three non-controlling shareholders. The purchase decreased the non-controlling interests' ownership percentage from 35.8% to 33.7%. In the preparation of consolidated financial statements of the Company, intercompany transactions and balances are eliminated and net earnings are reduced by the portion of the net earnings of the subsidiary applicable to non-controlling interests.

Accounting Standards Codification ("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 our chief operating decision maker internally evaluates separate financial information, business activities and management responsibility. We have one reportable segment, consisting of the sale of wireless access products. We generate revenues from three geographic areas, consisting of North America, 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,	
	2022	2021
Net sales:		
North America	\$ 23,305,366	\$ 183,771,146
Caribbean and South America	2,375	17,500
Asia	690,021	326,699
Totals	\$ 23,997,762	\$ 184,115,345
Long-lived assets, net (property and equipment and intangible assets):	June 30, 2022	June 30, 2021
United States	\$ 1,374,747	\$ 1,349,320
Asia	81,261	49,040
Totals	\$ 1,456,008	\$ 1,398,360

OUR PRODUCTS

We are a global leader and innovator in providing the latest mobile technologies to the mass market, which include 5G/4G Mobile Hotspots, 5G/4G Customer Premises Equipment, and MDM solutions. We are a leading enabler of the Digital Divide initiative, and our expertise extends to innovation in Internet of Things (IoT) and machine-to-machine (M2M) applications.

The following is a sample of the products we offer:

5G/4G Wireless Broadband Products

5G/4G LTE Wi-Fi Mobile Hotspot

- o Portable Wi-Fi hotspot routers that provide wireless Internet access with 5G/4G support for multiple simultaneously connected devices including laptops, tablets, and smart phones. Our Mobile Hotspot products help remote workers be productive while on the go and help students and educational institutions support remote learning activities.

5G/4G Consumer Home Gateway CPE (Customer-Premises Equipment)

- o Enhanced routing gateway that can provide support for both wired and wireless connectivity, offering solutions for consumers looking to replace Cable or DSL service

5G/4G Enterprise Gateway CPE

- o Enhanced routing gateway equipped with enterprise features offering solutions for enterprise customers looking to replace wired service, or wireless back-up for wired connections in a mission-critical environment or instant wireless connection in temporal locations.

IoT Tracking Devices and Connected Devices:

Smart IoT tracking device

- o Location service devices based on CAT1 and CAT M technology, allowing consumers and businesses to track virtually any tangible item, anytime and anywhere.

Connected Car

- o An all-in-one connected car solution that provides easy access to built-in Wi-Fi Hotspot and extensive added vehicle diagnostics, safety, and security features, as well as location service via OBDII protocol with other applications.

Home Phone Connect

- o Franklin's Voice Over LTE (VoLTE) device provides a landline alternative, connecting instantly and allowing users local and domestic long distance calling through the carrier's network.

IOT Server Platform and Application

- o "Pintrac," Franklin's Cloud based telecom grade server platform, enables enhanced remote management of device functionality.
- o Pintrac Mobile Device Management (MDM) for LTE hotspots allows schools, government agencies and others to remotely manage and configure hotspots.
- o Pintrac Pet is a complete pet tracking application, allowing monitoring and tracking household pets and their activity using Franklin's Trackers.
- o Pintrac Auto tracks, locates, and manages vehicles for consumers and businesses using Franklin's LTE OBD devices.

CUSTOMERS

Our global customer base is comprised of wireless operators, strategic partners and distributors located primarily in North America, the Caribbean and South America, and Asia.

SALES AND MARKETING

We market and sell our products primarily to wireless operators located in North America, the Caribbean and South America, and Asia 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. Global Certification Forum (“GCF”) test certifications are required in order to launch any wireless data products with wireless operators in North America. PCS Type Certification Review Board (“PTCRB”) test certifications also are required for all LTE and HSPA/GSM wireless data products. Other LTE and 5G test certifications, as defined by the 3GPP governing body, are required for LTE and 5G wireless data products. Certifications are issued as being a qualifier of GCF, PTCRB, IEEE, CE, UL, Wi-Fi alliance certification and 3GPP standards.

PRODUCTION AND MANUFACTURING OPERATIONS

For the fiscal year ended June 30, 2022, the manufacturing of the majority of our products was performed by two independent companies located in Asia.

EMPLOYEES

As of June 30, 2022, we had 76 total employees at Franklin and FTI combined. 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 FOR PRODUCT DEVELOPMENT. Our financial resources are sufficient for our current operational needs, however, the amount of funding 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. In such event, the percentage ownership of our stockholders would 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:

- o We may be liable for potentially substantial damages, liabilities, and litigation costs, including attorneys’ fees;

- o 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;
- o 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;
- o 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;
- o The diversion of management's attention and resources;
- o Our relationships with customers may be adversely affected; and,
- o 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 reductions, 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 new products. To be successful in the market we must, among other things:

- o Complete development and introduction of functional and attractive products and services;
- o Attract and maintain customer loyalty;
- o Establish and increase awareness of our brand and develop customer loyalty;
- o Provide desirable products and services to customers at attractive prices;
- o Establish and maintain strategic relationships with strategic partners and affiliates;
- o Rapidly respond to competitive and technological developments;
- o Build operations and customer service infrastructure to support our business; and
- o 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 our efforts will produce a successful outcome.

POTENTIAL DESIGN AND MANUFACTURING DEFECTS COULD OCCUR. Our product and service offerings may have quality issues from time to time, due to defects in software design, hardware design or component manufacturing. As a result, our products and services may not perform as anticipated and may not meet customer expectations. Component defects could make our products unsafe and create a risk of environmental or property damage and personal injury. There can be no assurance we will be able to detect and address all issues and defects in the hardware, software, and services we offer. Failure to do so could result in widespread technical and performance issues affecting our products and services. In addition, we may be exposed to product liability claims, recalls, product replacements or modifications, write-offs of inventory, property, plant and equipment, and/or intangible assets, and significant warranty and other expenses, including litigation costs and regulatory fines.

WE OPERATE IN A FIELD WITH RAPIDLY CHANGING TECHNOLOGY. We cannot be certain that our 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. These are beyond our ability to control and can either increase or decrease demand for our products.

PANDEMIC OUTBREAKS CAN CAUSE VOLATILE CHANGES IN THE MARKET. Demand for wireless access can rise and fall greatly during times of pandemic outbreaks, such as COVID-19, as more people may be required to work remotely, and schools may be required to operate remote classrooms. When an outbreak ends, or becomes more controlled, demand for wireless devices could decline rapidly, decreasing demand for our products. Pandemic outbreaks can also disrupt supply chains, manufacturing operations, and shipping. These disruptions can make product fulfillment difficult, delayed, or impossible. All these changes are beyond our ability to control and can cause revenue and income to change dramatically.

WE DEPEND ON COLLABORATIVE ARRANGEMENTS. The development and commercialization of our products and services depend in large part upon our ability to selectively enter 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 ADVERSELY 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, 2022, net revenues from our two largest customers represented 70% and 13% of our consolidated net sales, respectively. We have a written agreement with each of these customers that governs the sale of products to them, but the agreements do not obligate them to purchase any quantity of products from us. If these customers were to reduce their business with us, our revenues and profitability could materially decline.

OUR PRODUCT DELIVERIES ARE SUBJECT TO LONG LEAD TIMES. We often experience long-lead times to ship products, often more than 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:

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

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

We believe that our products are currently exempt from international tariffs. If this were to change at any point, a tariff of 10%-25% of the purchase price could be imposed. If such tariffs are imposed, they could have a materially adverse effect on sales and operating results.

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 12,775 square feet of office space in San Diego, California, at a monthly rent of \$25,754, pursuant to a lease expiring in December 2023. In addition to monthly rent, the lease includes payment for certain common area costs. Our facility is covered by an appropriate level of insurance, and we believe it to be suitable for our use and adequate for our present needs. Rent expense related to this property was \$309,053 for the years ended June 30, 2022, and 2021.

Our Korea-based subsidiary, FTI, leases approximately 10,000 square feet of office space, at a monthly rent of approximately \$8,000, and additional office space consisting of approximately 2,682 square feet at a monthly rent of approximately \$2,700, both located in Seoul, Korea. These leases expired on August 31, 2022 but extended by an additional twelve months to August 31, 2023. In addition to monthly rent, the leases provide for periodic cost of living increases in the base rent and payment for certain common area costs. These facilities are covered by an appropriate level of insurance, and we believe them to be suitable for our use and adequate for our present needs. Rent expense related to these leases was approximately \$128,400 for each of the years ended June 30, 2022, and 2021.

We lease one corporate housing facility, located in Seoul, Korea, primarily for our employees who travel, under a non-cancelable operating lease that expired on September 4, 2022, and extended by an additional twelve months to September 4, 2023. Rent expense related to this lease was \$8,604 and \$9,161 for the years ended June 30, 2022, and 2021, respectively.

ITEM 3. LEGAL PROCEEDINGS

Refer to NOTE 8 - COMMITMENTS AND CONTINGENCIES in the Consolidated Financial Statements.

ITEM 4. MINE SAFETY DISCLOSURES

None.

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

Shares of our Common Stock are quoted and traded on NASDAQ under the trading symbol "FKWL." We have one class of common stock. As of June 30, 2022, we had 721 shareholders of record. Since many of the shares of our common stock are held by brokers and other institutions on behalf of shareholders, the total number of beneficial holders represented by these record holders is not practicably determinable.

EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes share and exercise price information about our equity compensation plans as of June 30, 2022:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	766,001	\$ 3.85	532,003
Equity compensation plans not approved by security holders	–	N/A	–
Total	766,001	\$ 3.85	532,003

ITEM 6. [RESERVED]

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and related notes included elsewhere in this report. This report contains certain forward-looking statements relating to future events or our future financial performance. These statements are subject to risks and uncertainties which could cause actual results to differ materially from those discussed in this report. You are cautioned not to place undue reliance on this information which speaks only as of the date of this report. We are not obligated to publicly update this information, whether as a result of new information, future events or otherwise, except to the extent we are required to do so in connection with our obligation to file reports with the SEC. For a discussion of the important risks to our business and future operating performance, see the discussion under the caption "Item 1A. Risk Factors" and under the caption "Factors That May Influence Future Results of Operations" below. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this report might not occur.

BUSINESS OVERVIEW

We are a leading provider of intelligent wireless solutions including mobile hotspots, routers, trackers, and other devices. Our designs integrate innovative hardware and software, enabling machine-to-machine (M2M) applications and the Internet of Things (IoT). Our M2M and IoT solutions include embedded modules, modems and gateways built to deliver reliable always-on connectivity supporting a broad spectrum of applications based on 5G/4G wireless technology.

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

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

FACTORS THAT MAY INFLUENCE FUTURE RESULTS OF OPERATIONS

We believe that our revenue growth will be influenced largely by (1) the successful maintenance of our existing customers, (2) the rate of increase in demand for wireless data products, (3) customer acceptance for our new products, (4) new customer relationships and contracts, and (5) our ability to meet customers' demands.

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

CRITICAL ACCOUNTING POLICIES

Revenue Recognition

Contracts with Customers

Revenue from sales of products and services is derived from contracts with customers. The products and services covered by contracts primarily consist of hot spot routers. Contracts with each customer generally state the terms of the sale, including the description, quantity and price of each product or service. Payment terms are stated in the contract, primarily in the form of a purchase order. Since the customer typically agrees to a stated rate and price in the purchase order that does not vary over the life of the contract, the majority of our contracts do not contain variable consideration. We establish a provision for estimated warranty and returns. Using historical averages, that provision for the year ended June 30, 2022, was not material.

Disaggregation of Revenue

In accordance with Topic 606, we disaggregate revenue from contracts with customers into geographical regions and by the timing of when goods and services are transferred. We determined that disaggregating revenue into these categories meets the disclosure objective in Topic 606, which is to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by regional economic factors.

Contract Balances

We perform our obligations under a contract with a customer by transferring products in exchange for consideration from the customer. We typically invoice our customers as soon as control of an asset is transferred, and a receivable is established. We, however, recognize a contract liability when a customer prepays for goods and/or services, or we have not delivered goods under the contract since we have not yet transferred control of the goods and/or services.

The balances of our trade receivables are as follows:

	June 30, 2022	June 30, 2021
Accounts Receivable, net	<u>\$ 1,322,619</u>	<u>\$ 2,542,429</u>

The balance of contract assets was immaterial as we did not have a significant amount of un-invoiced receivables in the periods ended June 30, 2022 and June 30, 2021.

Included in the Accounts Receivable balance is a passthrough amount of \$837,000.00. These transactions were a direct result of an agreement between our vendor and our customer. There is a corresponding balance of \$837,000 in our Accounts Payable account to offset.

Our contract liabilities, which are included in accrued liabilities on our balance sheet, are as follows:

	June 30, 2022	June 30, 2021
Undelivered products	\$ 371,624	\$ 140,000

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of measurement in Topic 606. At contract inception, we assess the products and services promised in our contracts with customers. We then identify performance obligations to transfer distinct products or services to the customer. To identify performance obligations, we consider all the products or services promised in the contract regardless of whether they are explicitly stated or are implied by customary business practices.

Our performance obligations are satisfied at a point in time. Revenue from products transferred to customers at a single point in time accounted for over 99% of net sales for the year ended June 30, 2022. Revenue for non-recurring engineering projects is based on the percentage completion of a project and accounted for under 1% of net sales for the year ended June 30, 2022. Most of our revenue that is recognized at a point in time is for the sale of hot-spot router products. Revenue from these contracts is recognized when the customer can direct the use of and obtain substantially all of the benefits from the product, which generally coincides with title transfer at completion of the shipping process.

As of June 30, 2022, our contracts do not contain any unsatisfied performance obligations, except for undelivered products.

Capitalized Product Development Costs

Accounting Standards Codification (“ASC”) Topic 350, “Intangibles - Goodwill and Other” includes software that is part of a product or process to be sold to a customer and shall be accounted for under Subtopic 985-20. Our products contain embedded software internally developed by FTI, which is an integral part of these products because it allows the various components of the products to communicate with each other and the products are clearly unable to function without this coding.

The costs of product development that are capitalized once technological feasibility is determined (noted as Technology in progress in the Intangible Assets table, in Note 2 to Notes to Consolidated Financial Statements) include certifications, licenses, payroll, employee benefits, and other headcount-related expenses associated with product development. We determine that technological feasibility for our products is reached after all high-risk development issues have been resolved. Once the products are available for general release to our customers, we cease capitalizing the product development costs and any additional costs, if any, are expensed. The capitalized product development costs are amortized on a product-by-product basis using the straight-line amortization. The amortization begins when the products are available for general release to our customers.

As of June 30, 2022, and June 30, 2021, capitalized product development costs in progress were \$187,343 and \$602,388, respectively, and these amounts are included in intangible assets in our consolidated balance sheets. During the year ended June 30, 2022, we incurred \$658,544 in capitalized product development costs, and all costs incurred before technological feasibility is reached are expensed and included in our consolidated statements of comprehensive income.

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. As of June 30, 2022, we have federal and state net operating loss carryforwards of approximately \$3.3 million and \$40,000, respectively.

Under the Tax Cuts and Jobs Act (the “Act”), which was signed into law on December 22, 2017, the federal net operating loss of approximately \$2.5 million, which was recognized on or after January 1, 2018, will carry forward indefinitely. The federal net operating loss of approximately \$0.8 million, which was recognized on or before December 31, 2017, will expire through 2035. The state net operating loss of approximately \$40,000 will begin to expire through 2042. The utilization of net operating loss carryforwards may be subject to limitations under provisions of the Internal Revenue Code Section 382 and similar state provisions.

Under the provision of ASC 740 “Application of the Uncertain Tax Position Provisions” related to accounting for uncertain tax positions, 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, 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.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Refer to NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES in the Consolidated Financial Statements.

RESULTS OF OPERATIONS

The following table sets forth, for the years ended June 30, 2022, 2021, and 2020, our statements of operations including data expressed as a percentage of sales:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
	(as a percentage of sales)		
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	84.1%	82.4%	80.7%
Gross profit	15.9%	17.6%	19.3%
Operating expenses	36.6%	5.2%	9.9%
(Loss) income from operations	(20.7%)	12.4%	9.4%
Other income, net	1.1%	0.3%	0.3%
Net (loss) income before income taxes	(19.6%)	12.7%	9.7%
Income tax (benefit) provision	(4.3%)	2.7%	1.8%
Net (loss) income	(15.3%)	10.0%	7.9%
Less: non-controlling interest in net income of subsidiary	0.4%	0.4%	0.5%
Net (loss) income attributable to Parent Company stockholders	(15.7%)	9.6%	7.4%

YEAR ENDED JUNE 30, 2022, COMPARED TO YEAR ENDED JUNE 30, 2021

NET SALES - Net sales decreased by \$160,117,583, or 87.0%, to \$23,997,762 for the year ended June 30, 2022 from \$184,115,345 for the corresponding period of 2021. For the year ended June 30, 2022, net sales by geographic regions, consisting of North America, the Caribbean and South America, and Asia were \$23,305,366 (97.1% of net sales), \$2,375 (0.0% of net sales), and \$690,021 (2.9% of net sales), respectively. For the year ended June 30, 2021, net sales by geographic regions, consisting of North America, the Caribbean and South America, and Asia were \$183,771,146 (99.8% of net sales), \$17,500 (0.0% of net sales), and \$326,699 (0.2% of net sales), respectively.

Net sales in North America decreased by \$160,465,780, or 87.3%, to \$23,305,366 for the year ended June 30, 2022, from \$183,771,146 for the corresponding period of 2021. The decrease in net sales in North America was primarily due to the reduction of demand for wireless products from one major carrier customer, resulting from the unprecedented high volume of demand for wireless products during the prior period, which coincided with the early stages of the Covid-19 Pandemic period. Net sales in the Caribbean and South America decreased by \$15,125, or 86.4%, to \$2,375 for the year ended June 30, 2022, from \$17,500 for the corresponding period of 2021. Net sales in Asia increased by \$363,322, or 111.2%, to \$690,021 for the year ended June 30, 2022, from \$326,699 for the corresponding period of 2021. The increase in net sales was primarily due to the revenue generated from the material sales by FTI, which typically vary from period to period.

GROSS PROFIT- Gross profit decreased by \$28,647,438, or 88.2%, to \$3,816,583 for the year ended June 30, 2022, from \$32,464,021 for the corresponding period of 2021. The gross profit in terms of net sales percentage was 15.9% for the year ended June 30, 2022, compared to 17.6% for the corresponding period of 2021. The decrease in gross profit was primarily due to the change in net sales as described above. The decrease in gross profit in terms of net sales percentage was primarily due to variations in customer and product mix, competitive selling prices and product costs which generally vary from period to period and region to region.

OPERATING EXPENSES - Operating expenses decreased by \$854,236, or 8.9%, to \$8,791,475 for the year ended June 30, 2022, from \$9,645,711 for the corresponding period of 2021.

Selling, general, and administrative expenses decreased by \$568,504 to \$4,509,344 for the year ended June 30, 2022, from \$5,077,848 for the corresponding period of 2021. The decrease in selling, general, and administrative expenses was primarily due to decreased shipping and handling charges of approximately \$480,000, decreased payroll expense as well as bad debt expense of approximately \$340,000, which are partially offset by the increased compensation expense related to stock options granted for employees and amortization expense of approximately \$165,000 and \$141,000, respectively.

Research and development expense decreased by \$285,732 to \$4,282,131 for the year ended June 30, 2022, from \$4,567,863 for the corresponding period of 2021. The decrease in research and development expense was primarily due to the decreased payroll expense for employees involved in research and development and other research and development costs of approximately \$104,000 and \$182,000, respectively.

OTHER INCOME, NET - Other income, net decreased by \$351,748, or 57.0%, to \$265,419 for the year ended June 30, 2022, from \$617,167 for the corresponding period of 2021. The decrease was primarily due to the forgiveness of the Payroll Protection Plan loan during the fiscal year 2021, with no similar transaction in fiscal year 2022, as well as decreased product development funding received by FTI from a government entity. This was partially offset by the gain from the favorable changes in foreign currency exchange rates in FTI and the increased interest income earned from the money market accounts and certificates of deposit.

YEAR ENDED JUNE 30, 2021, COMPARED TO YEAR ENDED JUNE 30, 2020

NET SALES - Net sales increased by \$109,043,047, or 145.3%, to \$184,115,345 for the year ended June 30, 2021 from \$75,072,298 for the corresponding period of 2020. For the year ended June 30, 2021, net sales by geographic regions, consisting of North America, the Caribbean and South America, and Asia were \$183,771,146 (99.8% of net sales), \$17,500 (0.0% of net sales), and \$326,699 (0.2% of net sales), respectively. For the year ended June 30, 2020, net sales by geographic regions, consisting of North America, the Caribbean and South America, and Asia were \$74,839,778 (99.7% of net sales), \$0 (0.0% of net sales), and \$232,520 (0.3% of net sales), respectively.

Net sales in North America increased by \$108,931,368, or 145.6%, to \$183,771,146 for the year ended June 30, 2021, from \$74,839,778 for the corresponding period of 2020. The increase in net sales in North America resulted primarily from increased demand for wireless connectivity due to people working and attending school remotely. High volume sales to school districts rapidly rolling out remote learning programs was a significant driver for increased sales through our primary customers due to the Covid-19 pandemic. Net sales also increased due to the timing of orders placed by a carrier customer, from which a significant portion of our revenue was derived (approximately 63% of our consolidated net sales for this period). Net sales in the Caribbean and South America increased by \$17,500, or 100.0%, to \$17,500 for the year ended June 30, 2021, from \$0 for the corresponding period of 2020. Net sales in Asia increased by \$94,179, or 40.5%, to \$326,699 for the year ended June 30, 2021, from \$232,520 for the corresponding period of 2020. The increase in net sales was primarily due to product development service revenue generated by FTI, which typically varies from period to period.

GROSS PROFIT- Gross profit increased by \$17,939,536, or 123.5%, to \$32,464,021 for the year ended June 30, 2021, from \$14,524,485 for the corresponding period of 2020. The gross profit in terms of net sales percentage was 17.6% for the year ended June 30, 2021, compared to 19.3% for the corresponding period of 2020. The increase in gross profit was primarily due to the change in net sales as described above. The decrease in gross profit in terms of net sales percentage was primarily due to competitive selling prices and the increase in production costs.

OPERATING EXPENSES - Operating expenses increased by \$2,199,350, or 29.5%, to \$9,645,711 for the year ended June 30, 2021, from \$7,446,361 for the corresponding period of 2020.

Selling, general, and administrative expenses increased by \$1,377,989 to \$5,077,848 for the year ended June 30, 2021, from \$3,699,859 for the corresponding period of 2020. The increase in selling, general, and administrative expenses was primarily due to increased payroll expense as well as compensation expense related to stock options granted for employees (approximately \$560,000), increased bad debt expense of approximately \$340,000, increased professional fees of approximately \$130,000, and increased shipping and handling charges of approximately \$80,000.

Research and development expense increased by \$821,361 to \$4,567,863 for the year ended June 30, 2021, from \$3,746,502 for the corresponding period of 2020. The increase in research and development expense was primarily due to the increased payroll expense for employees involved in research and development and other research and development costs.

OTHER INCOME, NET - Other income, net increased by \$396,403, or 179.6%, to \$617,167 for the year ended June 30, 2021, from \$220,764 for the corresponding period of 2020. The increase was primarily due to the gain from the forgiveness of the Payroll Protection Plan loan and increased product development funding received by FTI from a government entity, which was partially offset by the loss from the unfavorable changes in foreign currency exchange rates in FTI and the decreased interest income earned from the money market accounts and certificates of deposit.

LIQUIDITY AND CAPITAL RESOURCES

Our historical operating results, capital resources and financial position, in combination with current projections and estimates, were considered in management's plan and intentions to fund our operations over a reasonable period of time, which we define as the twelve-month period ending June 30, 2022. For purposes of liquidity disclosures, we assess the likelihood that we have sufficient available working capital and other principal sources of liquidity to fund our operating activities and obligations as they become due.

Our principal source of liquidity as of June 30, 2022, consisted of cash and cash equivalents as well as short-term investments of \$42,614,077. We believe we have sufficient available capital to cover our existing operations and obligations through at least June 30, 2023. Our long-term future cash requirements will depend on numerous factors, including our revenue base, profit margins, product development activities, market acceptance of our products, future expansion plans and ability to control costs. If we are unable to achieve our current business plan or secure additional funding that may be required, we would need to curtail our operations or take other similar actions outside the ordinary course of business in order to continue to operate as a going concern.

OPERATING ACTIVITIES – Net cash used in operating activities for the year ended June 30, 2022, was \$7,407,355, and net cash provided by operating activities for the year ended June 30, 2021 was \$12,104,199.

The \$7,407,355 in net cash used in operating activities for the year ended June 30, 2022, was primarily due to the increase in inventory and decrease in accounts payable of \$3,222,344 and \$1,537,287, respectively, as well as our operating results (net loss adjusted for depreciation, amortization, and other non-cash charges), which was offset by the decrease of accounts receivable of \$1,205,938.

The \$12,104,199 in net cash provided by operating activities for the year ended June 30, 2021, was primarily due to the decrease in accounts receivable and inventory of \$13,103,973 and \$10,807,884, respectively, as well as our operating results (net income adjusted for depreciation, amortization and other non-cash charges), which was offset by the decrease in accounts payable of \$32,364,266.

INVESTING ACTIVITIES – Net cash used in investing activities for the years ended June 30, 2022, and 2021 was \$11,675,028 and \$722,520, respectively.

The \$11,675,028 in net cash used in investing activities for the year ended June 30, 2022, was primarily due to the purchases of short-term investments and capitalized product development of \$10,950,625 and \$658,544, respectively. The \$722,520 in net cash used in investing activities for the year ended June 30, 2021, was primarily due to the purchases of capitalized product development and property and equipment of \$694,909 and \$21,043, respectively.

FINANCING ACTIVITIES – Net cash provided by financing activities for the years ended June 30, 2022, and 2021 was \$75,445 and \$6,074,759, respectively.

The \$75,445 in net cash provided by financing activities for the year ended June 30, 2022, was from the exercise of stock options. The \$6,074,759 in net cash provided by financing activities for the year ended June 30, 2021, was primarily due to the \$6,000,008 aggregate purchase price, paid to us in cash by investors for the issuance of 923,078 shares of Common Stock, as well as \$74,751 received from the exercise of stock options.

OFF-BALANCE SHEET ARRANGEMENTS

None.

CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

The following table summarizes our contractual obligations and commitments as of June 30, 2022, and the effect such obligations could have on our liquidity and cash flow in future periods:

	Payments due by June 30,			Total
	2023	2024	2025	
Total Obligations	\$ 321,930	\$ 160,965	\$ –	\$ 482,895

LEASES

Refer to ITEM 2. PROPERTIES.

FUTURE LIQUIDITY AND CAPITAL REQUIREMENTS

For the next twelve months, we may require in excess of \$5 million for capital expenditures, software licenses and for testing and certifying new products.

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 raise additional debt or equity capital if we are unable to generate sufficient cash flow from operations to fund the expansion of our sales and to satisfy the related working capital requirements for the 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 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 to raise funds including credit lines and loans, 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

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Our management has evaluated, under the supervision and with the participation of OC Kim, our President, and David Brown, our Acting Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, our President and the Acting Chief Financial Officer have concluded that, as of June 30, 2022, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC and (ii) accumulated and communicated to our management, including our principal executive and principal accounting officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act or in other factors that materially affected or are reasonably likely to materially affect our internal controls and procedures over financial reporting during the fourth quarter of the fiscal year ended June 30, 2022.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are 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.

To evaluate the effectiveness of internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, management conducted an assessment, using the criteria in *Internal Control-Integrated Framework*, (specifically the 2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its assessment, management concluded that we maintained effective internal control over financial reporting as of June 30, 2022.

Item 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable

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 as of June 30, 2022.

Name	Age	Position
OC Kim	57	President, Secretary and a Director
Gary Nelson	82	Chairman of the Board and a Director
Johnathan Chee	59	Director
Heidy Chow	44	Director
Kristina Kim	59	Director
Yun J. (David) Lee	61	Chief Operating Officer
David Brown	58	Acting Chief Financial Officer

OC Kim has been our President, Secretary and a director since September 2003. He also served as our Acting Chief Financial Officer from April 2018 until March 2021. Prior to joining Franklin Wireless, Mr. Kim was the CEO and President of Accetio Inc., a company he founded in April 2001 that developed cell phones and modules for the telecommunications industry. In September 2003, Accetio Inc. merged with Franklin Telecommunications Corp. and was renamed Franklin Wireless Corp. Prior to this, 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 the U.S. sales office for Kolon Data Communications Co., Ltd., one of Korea's most prominent technology conglomerates. While at Kolon Data Communications, Mr. Kim helped introduce the first generation of CDMA phones to the Korean market through his work with Qualcomm Personal Electronics (QPE), a joint venture between Qualcomm Incorporated and Sony Electronics Inc. Mr. Kim began his career at Lucky Goldstar (LG) Electronics. He has more than 29 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. We believe Mr. Kim's qualifications to serve as a director of the Company include his extensive business, operational and management experience in the wireless industry, including his current position as the Company's President. In addition, his knowledge of the Company's business, products, strategic relationships and future opportunities is of great value to the Company.

Gary Nelson has been a director since September 2003. Mr. Nelson was an early investor in Franklin Telecommunications Corp. in the 1980's and served as a director from 2001 up until the Company's merger with Accetio Inc. in September 2003, at which time the Company was renamed Franklin Wireless Corp. Following the merger, Mr. Nelson became a director and ultimately Chairman of the Board of Franklin Wireless Corp. He was co-founder and President of Churchill Mortgage Corporation, an income property mortgage banking firm based in Los Angeles, California, which was a loan correspondent for major life insurance companies and other financial institutions. In addition, Mr. Nelson was the Chief Operating Officer of Churchill Mortgage Capital, which was the loan origination arm of Churchill Mortgage Corporation. Mr. Nelson's prior experience includes various marketing positions with Control Data Corporation and design engineering positions with North American Aviation where he worked on the Apollo Project. He holds a B.S. in Mechanical Engineering from Kansas State University and an MBA from the University of Southern California. We believe that Mr. Nelson's qualifications to serve as a director of the Company include his many years of business, operational and management experience including his previous position as President of Churchill Mortgage Corporation. In addition, Mr. Nelson has served as a director of the Company for 14 years, and brings a valuable historical perspective on the development of the Company's business and its leadership.

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. Mr. Chee has represented clients in various business dealings and negotiations with Ameritech, SBC, Sprint and several wireless carriers in Latin America. 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. We believe Mr. Chee's qualifications to serve as a director of the Company include his experience as a business attorney that allow him to provide the Company's Board of Directors with valuable knowledge of legal matters that may affect the Company.

Heidy Chow is a Certified Public Accountant and an experienced finance and accounting executive whose client base includes several IT companies. Ms. Chow is an Assurance Partner of The Pun Group, LLP and has over fifteen (15) years of combined experience in auditing, consulting and finance. Ms. Chow's career in public accounting was spent primarily with the National firms of RSM US and Ernst & Young, and regional firms where she has specialized in corporate accounting and auditing services. She supervises engagement teams in areas of designing and planning audits in accordance with the AICPA Generally Accepted Auditing Standards and Public Company Accounting Oversight Board (PCAOB) standards. In addition, she often serves as Contract Chief Financial Officer for privately held small and middle market companies. She holds a B.S. in Accounting from California State Polytechnic University, Pomona.

Kristina Kim is a licensed attorney with extensive knowledge of global import/export, international trade, and regulatory issues. Ms. Kim also served as General Counsel and Vice President with Samsung International Inc. for over 14 years. Ms. Kim holds a B.A. in Biochemistry and Molecular Biology from the University of California at Santa Barbara, and a Juris Doctorate from the University of San Diego.

Yun J. (David) Lee has served as our Chief Operating Officer since September 2008. Mr. Lee has 23 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.

David Brown has served as our Acting Chief Financial Officer since March 2021. With over 25 years of financial experience, David Brown has worked in several industries including manufacturing, aerospace, biotech, and electronics. A graduate in accounting from San Diego State University, David has advanced knowledge of accounting, budgeting, and cash management. He has developed and implemented internal policies and procedures throughout several organizations and has managed all aspects of the finance departments along with outside auditors.

CODE OF ETHICS

The Board of Directors has adopted a Code of Ethics, which is applicable to all of our employees, including 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 GOVERNANCE

During fiscal 2022, the Board of Directors held five meetings. Each director attended 100% of the meetings of the Board, except for Joon Won Jyoung, who attended none of the meetings and resigned his position on the Board on January 26, 2021. The Board of Directors has an Audit Committee made up of Heidy Chow (committee chair), Gary Nelson, and Kristina Kim, and a Compensation Committee made up of Gary Nelson (committee chair) and Johnathan Chee. The Board of Directors has no other committees.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth all compensation paid or accrued by us for the years ended June 30, 2022, and 2021 to our President, Chief Operating Officer, and Acting Chief Financial Officer (The "Named Executive Officers").

Summary Compensation Table

Name and Principal Position	Fiscal Year	Salary (\$)	Bonus (\$)	Option Awards (\$)	Total (\$)
OC Kim, President	2021	\$ 286,667	\$ 58,000	\$ –	\$ 344,667
	2022	\$ 300,000	\$ –	\$ 566,000	\$ 866,000
Yun J. (David) Lee, Chief Operating Officer	2021	\$ 286,667	\$ 58,000	\$ 404,090	\$ 748,757
	2022	\$ 300,000	\$ –	\$ 42,450	\$ 342,450
David Brown, Acting Chief Financial Officer	2021	\$ 40,032	\$ 2,000	\$ –	\$ 42,032
	2022	\$ 100,193	\$ –	\$ 28,300	\$ 128,493

Outstanding Equity Awards at Fiscal Year-End

The following table presents the outstanding equity awards held by each of the Named Executive Officer as of June 30, 2022. The only outstanding equity awards are stock options. Options to purchase 200,000, 15,000, and 10,000 shares were granted to OC Kim, Yun J. (David) Lee, and David Brown during fiscal 2022, respectively. The options vest over periods ranging from one to three years and are subject to early termination on the occurrence of certain events related to termination of employment. In addition, the full vesting of options is accelerated if there is a change in control of the Company.

Outstanding Equity Awards at Fiscal Year-End

Options Awards

Name	Number of Securities Underlying Unexercised Options (#) exercisable	Number of Securities Underlying Unexercised Options (#) nonexercisable	Option Exercise Price (\$)	Option Expiration Date
OC Kim	200,000 (1)	166,423	\$3.38	12/27/2026
Yun J. (David) Lee	100,000 (2)		\$1.34	12/31/2022
	100,000 (3)	34,672	\$5.40	07/13/2025
	15,000 (1)	12,482	\$3.38	12/27/2026
David Brown	10,000 (1)	8,321	\$3.38	12/27/2026

- (1) The option vests and is exercisable over three years as follows and has a five-year term:
- 33.3% of the shares underlying the option vest on the first anniversary of the date of the grant.
 - 33.3% of the shares underlying the option vest on the second anniversary of the date of the grant.
 - 33.3% of the shares underlying the option vest on the third anniversary of the date of the grant.
- (2) The option vests and is exercisable in full on the first anniversary of the date of the grant and has a ten-year term:
The option had an expiration date of June 13, 2022. On June 13, 2022, the option was modified to extend the term to December 31, 2022.
- (3) The option vests and is exercisable over three years as follows and has a five-year term:
- 33.3% of the shares underlying the option vest on the first anniversary of the date of the grant.
 - 33.3% of the shares underlying the option vest on the second anniversary of the date of the grant.
 - 33.3% of the shares underlying the option vest on the third anniversary of the date of the grant.

Director Compensation

Our directors are reimbursed for reasonable out-of-pocket expenses incurred in attending meetings of the Board of Directors. Employee directors do not receive any cash compensation for service as directors and do not receive any equity compensation designated for such services. Members of the Board of Directors who are not employees may receive stock option grants as consideration for their board service from time to time, although there is no established policy for such stock option grants.

Fiscal 2022 Director Compensation

Name	Fee Earned or Paid in Cash (\$)(1)	Option Awards \$(2)	All Other Compensation (\$)	Total (\$)
Gary Nelson	15,000	42,454	–	57,454
Johnathan Chee	15,000	42,454	–	57,454
Heidy Chow	15,000	42,454	–	57,454
Kristina Kim	15,000	42,454	–	57,454

- (1) Directors are compensated at a base rate of \$15,000 annually for the year ended June 30, 2022 and prorated based upon board meeting attendance. Bonuses may be awarded when the business has performed exceptionally well as determined by the Board of Directors. For the year ended June 30, 2022, there has been no approved bonus for the Directors.
- (2) On December 28, 2021, options to purchase 15,000 shares were granted to each of the directors. The options granted to directors during fiscal 2022 vest over three years and are subject to early termination on the occurrence of certain events related to termination or resignation of the director.

There were no outstanding equity awards held by any of the non-officer directors as of June 30, 2022.

EMPLOYMENT CONTRACTS

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

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

The Board of Directors has approved extension of the Change of Control Agreements with Mr. Kim and Mr. Lee through September 30, 2023.

COMPENSATION DISCUSSION AND ANALYSIS

GENERAL PHILOSOPHY- We compensate our executive officers through a mix of base salary, incentive compensation 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 the ability to earn cash bonuses based on the achievement of performance targets. The performance targets are set by the Board of Directors, and our executive officers are eligible to receive bonuses on a quarterly basis. The actual amount of incentive compensation paid to our executive officers is in the sole discretion of the Board of Directors.

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 of a change in control of the Company.

RETIREMENT PLANS – In January 2022, we implemented the CalSavers retirement program. CalSavers is California’s new retirement savings program that will offer millions of workers in California the opportunity to get on track for the future. The program is a voluntary participation program. All employees have the option to participate in this program if they chose to do so.

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 September 13, 2022, 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
Joon Won Jyoung 9707 Waples Street, Suite 150, San Diego, CA 92121	1,004,948	8.6%
OC Kim 9707 Waples Street, Suite 150, San Diego, CA 92121	1,096,695	9.4%
Gary Nelson 9707 Waples Street, Suite 150, San Diego, CA 92121	2,629	0.0%
Yun J. (David) Lee 9707 Waples Street, Suite 150, San Diego, CA 92121	85,000	0.7%
Johnathan Chee 9707 Waples Street, Suite 150, San Diego, CA 92121	13,500	0.1%
Paul Packer 805 Third Ave., 15 th Floor, New York, NY 10022	674,738(1)	5.8%
- AIGH Investment Partners, L.L.C. 6006 Berkley Avenue, Baltimore, MD21209	390,000(2)	3.3%
All directors and executive officers as a group	3,267,510	28.0%

(1) Based solely on a Schedule 13G dated February 14, 2022, which indicates that Mr. Packer may be deemed to beneficially own 674,738 shares. With respect to these shares, Mr. Packer has shared voting power and shared dispositive power with Globis Capital Partners, L.P., Globis Capital Advisors, L.L.C., Globis Overseas Fund, Ltd., Globis Capital Management, L.P. and Globis Capital, L.L.C.

(2) Based solely on a Schedule 13G dated February 14, 2022, which indicates that AIGH Capital Management, L.L.C. may be deemed to beneficially own 390,000 shares.

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

None.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

	FY 2022	FY 2021
Audit Fees	\$ 91,500	\$ 69,125
Total Fees	<u>\$ 91,500</u>	<u>\$ 69,125</u>

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 relate to the audit as of and for the years ended June 30, 2022, and 2021, which was performed by Paris, Kreit, and Chiu CPA LLP (formerly as "Benjamin & Ko"). All of the services described above were approved in advance by the Board of Directors or the Company's Audit Committee.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

- (a) 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	Articles of Incorporation of Franklin Wireless Corp. (1)
3.2	Amended and Restated Bylaws of Franklin Wireless Corp. (3)
4.1	Description of Securities (7)
10.3	Employment Agreement, dated September 21, 2009, between Franklin Wireless Corp. and OC Kim (3)
10.4	Change of Control Agreement, dated September 21, 2009, between Franklin Wireless Corp. and OC Kim (3)
10.5	Change of Control Agreement, dated September 21, 2009, between Franklin Wireless Corp. and David Lee. (3)
10.7	Lease, dated September 9, 2015, between the Company and Hunsaker & Associates San Diego, Inc., a California corporation (5)
10.8	Common Stock Purchase Agreement, dated August 18, 2020, between Franklin Wireless Corp. and Top Intercube Co., Ltd. (6)
10.9	Common Stock Purchase Agreement, dated August 18, 2020, between Franklin Wireless Corp. and Partron Co., Ltd. (6)
10.10	Loan Agreement between Franklin Technology Incorporation and Franklin Wireless Corporation, dated March 31, 2022 (8)
14.1	Code of Ethics (2)
23.1	Consent of Paris, Kreit and Chiu CPA LLP
31.1	Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certificate of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.1	Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.2	Certificate of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

(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, 2008, filed on September 26, 2008.

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

(4) Incorporated by reference from Annual Report on Form 10-K for the year ended June 30, 2011, filed on September 28, 2011.

(5) Incorporated by reference from Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, filed on November 16, 2015.

(6) Incorporated by reference from Annual Report on Form 10-K for the year ended June 30, 2020, filed on September 17, 2020.

(7) Incorporated by reference from Report on Form 10-K/A for the year ended June 30, 2020, filed on September 18, 2020.

(8) Incorporated by reference from Quarterly Report on Form 10-Q for the quarter ended March 31, 2022, filed on May 10, 2022.

(c) Supplementary Information

None.

ITEM 16. FORM 10-K SUMMARY.

Not applicable.

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: September 13, 2022

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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
Principal Executive Officer <u>/s/ OC KIM</u>	President and a Director	September 13, 2022
Principal Financial Officer <u>/s/ David Brown</u> David Brown	Acting Chief Financial Officer	September 13, 2022
<u>/s/ GARY NELSON</u> Gary Nelson	Chairman of the Board of Directors	September 13, 2022
<u>/s/ JOHNATHAN CHEE</u> Johnathan Chee	Director	September 13, 2022
<u>/s/ HEIDY CHOW</u> Heidy Chow	Director	September 13, 2022
<u>/s/ KRISTINA KIM</u> Kristina Kim	Director	September 13, 2022

FRANKLIN WIRELESS CORP.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022, and 2021

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Franklin Wireless Corp.

Opinion on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheet of Franklin Wireless Corp. and its subsidiary (the “Company”) as of June 30, 2022 and 2021, and the related consolidated statements of comprehensive (loss) income, changes in stockholders’ equity, and cash flows for each of the two years in the period ended June 30, 2022, and the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of June 30, 2022, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2022 and 2021, and the results of its operations and its cash flows for each of the two years in the period ended June 30, 2022 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2022, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Basis for Opinion

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the entity’s consolidated financial statements and an opinion on the entity’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that responds to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

An entity’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. An entity’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and directors of the entity; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are 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.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that is material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which it relates.

Description of the Matter

As described in Note 2 to the consolidated financial statements, the Company's contracts with customers sometimes contain multiple performance obligations, which are accounted for separately if they are distinct. In such cases, the transaction price is then allocated to the distinct performance obligations on a relative standalone selling price basis, and revenue is recognized when control of the distinct performance obligation is transferred.

Auditing the Company's revenue recognition was complex, including the identification and determination of distinct performance obligations and the timing of revenue recognition. For example, there were non-standard terms and conditions that required judgment to determine the distinct performance obligations and the impact on the timing of revenue recognition.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design, and tested the operating effectiveness of the Company's process and controls to identify and determine the distinct performance obligations and the timing of revenue recognition.

To test the identification and determination of the distinct performance obligations and the timing of revenue recognition, our audit procedures included, among others, reading the executed contract or purchase order to understand the contract, identifying the performance obligation(s), determining the distinct performance obligations, and evaluating the timing of revenue recognition for a sample of individual sales transactions. We evaluated the accuracy of the Company's contract summary documentation, specifically related to the identification and determination of distinct performance obligations and the timing of revenue recognition. We further evaluated appropriateness of revenue recognition through year-on-year analytics and reasonableness assessment of gross margin analysis.

Description of the Matter

Legal Proceedings

As described in Note 8 to the consolidated financial statements, management records liabilities for legal proceedings in those instances where it can reasonably estimate the amount of the loss and when loss is probable. Where the reasonable estimate of the probable loss is a range, management records as an accrual in its financial statements the most likely estimate of the loss, or the low end of the range if there is no one best estimate. Management either discloses the amount of a possible loss or range of loss in excess of established accruals if estimable, or states that such an estimate cannot be made. Management discloses significant legal proceedings even where liability is not probable or the amount of the liability is not estimable, or both, if management believes there is at least a reasonable possibility that a loss may be incurred.

*How We Addressed the Matter
in Our Audit*

The principal considerations for our determination that performing procedures relating to legal proceedings is a critical audit matter are the significant judgment by management when assessing the likelihood of a loss being incurred and when estimating the loss or range of loss for each claim, which in turn led to significant auditor judgment, subjectivity, and effort in performing procedures and evaluating management's assessment of the liabilities and disclosures associated with legal proceedings.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's evaluation of the liability related to legal proceedings, including controls over determining the likelihood of a loss and whether the amount of loss can be reasonably estimated, as well as financial statement disclosures. These procedures also included, among others, obtaining and evaluating the letters of audit inquiry with internal and external legal counsel, evaluating the reasonableness of management's assessment regarding whether an unfavourable outcome is reasonably possible or probable and reasonably estimable, and evaluating the sufficiency of the Company's disclosures related to legal proceedings

We have served as the Company's auditor since 2020.

/s/ Paris, Kreit, and Chiu CPA LLP, (formerly as "Benjamin & Ko").

New York, NY
September 13, 2022

FRANKLIN WIRELESS CORP.
Consolidated Balance Sheets

	As of June 30,	
	2022	2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 26,277,418	\$ 45,796,006
Short-term investments-others	16,336,659	5,386,034
Accounts receivable, net	1,322,619	2,542,429
Other receivables, net	40,132	50,040
Inventories, net	4,197,863	975,519
Prepaid expenses and other current assets	40,939	44,984
Advance payments to vendors	174,796	40,630
Total current assets	48,390,426	54,835,642
Property and equipment, net	105,952	151,610
Intangible assets, net	1,350,056	1,246,750
Deferred tax assets, non-current	1,347,436	387,548
Goodwill	273,285	273,285
Right of use assets	448,621	753,263
Other assets	126,095	140,539
TOTAL ASSETS	\$ 52,041,871	\$ 57,788,637
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 8,143,305	\$ 9,718,989
Income tax payable	6,702	333,503
Unearned revenue	231,624	—
Accrued liabilities	589,907	785,525
Lease liabilities, current	308,834	317,519
Total current liabilities	9,280,372	11,155,536
Lease liabilities, non-current	159,104	467,937
Total liabilities	9,439,476	11,623,473
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Parent Company stockholders' equity		
Preferred stock, par value \$0.001 per share, authorized 10,000,000 shares; No preferred stock issued and outstanding as of June 30, 2022, and 2021	—	—
Common stock, par value \$0.001 per share, authorized 50,000,000 shares; 11,684,280 and 11,590,281 shares issued and outstanding as of June 30, 2022, and 2021, respectively	14,163	14,069
Additional paid-in capital	13,593,426	12,972,234
Retained earnings	31,964,246	35,727,094
Treasury stock, 2,549,208 shares as of June 30, 2022, and 2021	(3,554,893)	(3,554,893)
Accumulated other comprehensive loss	(984,152)	(472,502)
Total Parent Company stockholders' equity	41,032,790	44,686,002
Non-controlling interests	1,569,605	1,479,162
Total stockholders' equity	42,602,395	46,165,164
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 52,041,871	\$ 57,788,637

See accompanying notes to consolidated financial statements.

FRANKLIN WIRELESS CORP.
Consolidated Statements of Comprehensive (Loss) Income

	Fiscal Years Ended June 30,	
	2022	2021
Net sales	\$ 23,997,762	\$ 184,115,345
Cost of goods sold	20,181,179	151,651,324
Gross profit	<u>3,816,583</u>	<u>32,464,021</u>
Operating expenses:		
Selling, general and administrative	4,509,344	5,077,848
Research and development	4,282,131	4,567,863
Total operating expenses	<u>8,791,475</u>	<u>9,645,711</u>
(Loss) income from operations	<u>(4,974,892)</u>	<u>22,818,310</u>
Other income, net:		
Interest income	71,375	8,789
Income from governmental subsidy	91,567	147,166
Gain from the forgiveness of payroll protection plan loan	–	487,300
Gain from the forgiveness of debts	38,397	–
Other income (expense), net	64,080	(26,088)
Total other income, net	<u>265,419</u>	<u>617,167</u>
(Loss) income before (benefit) provision for income taxes	(4,709,473)	23,435,477
Income tax (benefit) provision	<u>(1,037,068)</u>	<u>5,039,295</u>
Net (loss) income	<u>(3,672,405)</u>	<u>18,396,182</u>
Less non-controlling interests in net income of subsidiary at 33.7%	90,443	697,147
Net (loss) income attributable to Parent Company	<u>\$ (3,762,848)</u>	<u>\$ 17,699,035</u>
Basic (loss) earnings per share attributable to Parent Company stockholders	\$ (0.32)	\$ 1.56
Diluted (loss) earnings per share attributable to Parent Company stockholders	\$ (0.32)	\$ 1.53
Weighted average common shares outstanding - basic	11,613,812	11,350,946
Weighted average common shares outstanding - diluted	11,613,812	11,592,901
Comprehensive (loss) income		
Net (loss) income	\$ (3,672,405)	\$ 18,396,182
Translation adjustments	(511,650)	177,924
Comprehensive (loss) income	<u>(4,184,055)</u>	<u>18,574,106</u>
Less: comprehensive income attributable to non-controlling interest	90,443	697,147
Comprehensive (loss) income attributable to controlling interest	<u>\$ (4,274,498)</u>	<u>\$ 17,876,959</u>

See accompanying notes to consolidated financial statements.

FRANKLIN WIRELESS CORP.
Consolidated Statements of Stockholders' Equity

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non- controlling Interest	Total Stockholders Equity
	Shares	Amount						
Balance - June 30, 2020	10,605,912	\$ 14,007	\$ 7,475,365	\$ 18,028,059	\$ (4,513,479)	\$ (650,426)	\$ 782,015	\$ 21,135,541
Net income attributable to Parent Company	-	-	-	17,699,035	-	-	-	17,699,035
Foreign exchange translation	-	-	-	-	-	177,924	-	177,924
Issuance of stock related to stock option exercised	61,291	62	74,689	-	-	-	-	74,751
Comprehensive income attributable to non-controlling interest	-	-	-	-	-	-	697,147	697,147
Sales of treasury stock	923,078	-	5,041,422	-	958,586	-	-	6,000,008
Stock based compensation	-	-	380,758	-	-	-	-	380,758
Balance - June 30, 2021	<u>11,590,281</u>	<u>\$ 14,069</u>	<u>\$ 12,972,234</u>	<u>\$ 35,727,094</u>	<u>\$ (3,554,893)</u>	<u>\$ (472,502)</u>	<u>\$ 1,479,162</u>	<u>\$ 46,165,164</u>
Net loss attributable to Parent Company	-	-	-	(3,762,848)	-	-	-	(3,762,848)
Foreign exchange translation	-	-	-	-	-	(511,650)	-	(511,650)
Issuance of stock related to stock option exercised	93,999	94	75,351	-	-	-	-	75,445
Comprehensive income attributable to non-controlling interest	-	-	-	-	-	-	90,443	90,443
Stock based compensation	-	-	545,841	-	-	-	-	545,841
Balance - June 30, 2022	<u>11,684,280</u>	<u>\$ 14,163</u>	<u>\$ 13,593,426</u>	<u>\$ 31,964,246</u>	<u>\$ (3,554,893)</u>	<u>\$ (984,152)</u>	<u>\$ 1,569,605</u>	<u>\$ 42,602,395</u>

See accompanying notes to consolidated financial statements.

FRANKLIN WIRELESS CORP.
Consolidated Statements of Cash Flows

	Fiscal Years Ended June 30,	
	2022	2021
CASH FLOW FROM OPERATING ACTIVITIES:		
Net (loss) income	\$ (3,672,405)	\$ 18,396,182
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	87,743	90,322
Amortization of intangible assets	579,012	435,571
Stock based compensation	545,841	380,758
Bad debt expense	23,780	338,185
Forgiveness of payroll protection plan loan	–	(487,300)
Forgiveness of debts	(38,397)	–
Disposal of intangible assets	–	140,192
Amortization of right of use assets	304,642	386,407
Deferred tax (benefit)	(959,888)	550,640
Increase (decrease) in cash due to change in:		
Accounts receivable	1,205,938	13,103,973
Inventories	(3,222,344)	10,807,884
Prepaid expenses and other current assets	4,045	(23,396)
Advance payments to vendors	(134,166)	(12,792)
Other assets	14,444	142,830
Accounts payable	(1,537,287)	(32,364,266)
Income tax payable	(326,801)	298,790
Lease liabilities	(317,518)	(399,285)
Unearned revenue	231,624	–
Accrued liabilities	(195,618)	319,504
Net cash (used in) provided by operating activities	<u>(7,407,355)</u>	<u>12,104,199</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of short-term investments	(10,950,625)	(4,116)
Purchases of property and equipment	(42,085)	(21,043)
Payments for capitalized product development costs	(658,544)	(694,909)
Purchases of intangible assets	(23,774)	(2,452)
Net cash used in investing activities	<u>(11,675,028)</u>	<u>(722,520)</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Sales of common stock sold from treasury stock	–	6,000,008
Cash received from exercise of stock options	75,445	74,751
Net cash provided by financing activities	<u>75,445</u>	<u>6,074,759</u>
Effect of foreign currency translation	(511,650)	177,924
Net (decrease) increase in cash and cash equivalents	(19,518,588)	17,634,362
Cash and cash equivalents, beginning of year	45,796,006	28,161,644
Cash and cash equivalents, end of year	<u>\$ 26,277,418</u>	<u>\$ 45,796,006</u>
Supplemental disclosure of cash flow information:		
Cash paid during the periods for:		
Income taxes	\$ (200,350)	\$ (4,124,485)

See accompanying notes to consolidated financial statements.

FRANKLIN WIRELESS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BUSINESS OVERVIEW

We are a leading provider of intelligent wireless solutions including mobile hotspots, routers, trackers, and other devices. Our designs integrate innovative hardware and software enabling machine-to-machine (M2M) applications and the Internet of Things (IoT). Our M2M and IoT solutions include embedded modules, modems and gateways built to deliver reliable always-on connectivity supporting a broad spectrum of applications based on 5G/4G wireless technology.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary with a majority voting interest of approximately 66.3% (approximately 33.7% is owned by non-controlling interests) as of June 30, 2022, and 2021. In the preparation of consolidated financial statements of the Company, intercompany transactions and balances are eliminated and net earnings are reduced by the portion of the net earnings of the subsidiary applicable to non-controlling interests.

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 the subsidiary at the date of acquisition, October 1, 2009, by the parent are excluded from consolidated retained earnings. When a subsidiary is consolidated, the consolidated financial statements include the subsidiary's revenues, expenses, gains, and losses only from the date the subsidiary is initially consolidated, and the non-controlling interest is reported in the consolidated statement of financial position within equity, separately from the parent's equity. There are no shares of the Company held by any subsidiaries as of June 30, 2022, or June 30, 2021.

Non-controlling Interest in a Consolidated Subsidiary

As of June 30, 2022, the non-controlling interest was \$1,569,605, which represents a \$90,443 increase from \$1,479,162 as of June 30, 2021. The increase in the non-controlling interest of \$90,443 was from income in the subsidiary of \$268,716 incurred for the year ended June 30, 2022.

Segment Reporting

Accounting Standards Codification ("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 our chief operating decision maker internally evaluates separate financial information, business activities and management responsibility. We have one reportable segment, consisting of the sale of wireless access products.

We generate revenues from three geographic areas, consisting of North America, 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,	
	2022	2021
Net sales:		
North America	\$ 23,305,366	\$ 183,771,146
Caribbean and South America	2,375	17,500
Asia	690,021	326,699
Totals	\$ 23,997,762	\$ 184,115,345
	June 30, 2022	June 30, 2021
Long-lived assets, net (property and equipment and intangible assets):		
United States	\$ 1,374,747	\$ 1,349,320
Asia	81,261	49,040
Totals	\$ 1,456,008	\$ 1,398,360

Fair Value of Financial Instruments

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

Based upon our review of our collection history as well as the current balances associated with all significant customers and associated invoices, we do not believe an allowance for doubtful accounts was necessary as of June 30, 2022, and 2021.

Revenue Recognition

Contracts with Customers

Revenue from sales of products and services is derived from contracts with customers. The products and services covered by contracts primarily consist of hot spot routers. Contracts with each customer generally state the terms of the sale, including the description, quantity and price of each product or service. Payment terms are stated in the contract, primarily in the form of a purchase order. Since the customer typically agrees to a stated rate and price in the purchase order that does not vary over the life of the contract, the majority of our contracts do not contain variable consideration. We establish a provision for estimated warranty and returns. Using historical averages, that provision for the year ended June 30, 2022, was not material.

Disaggregation of Revenue

In accordance with Topic 606, we disaggregate revenue from contracts with customers into geographical regions and by the timing of when goods and services are transferred. We determined that disaggregating revenue into these categories meets the disclosure objective in Topic 606, which is to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by regional economic factors.

Contract Balances

We perform our obligations under a contract with a customer by transferring products in exchange for consideration from the customer. We typically invoice our customers as soon as control of an asset is transferred, and a receivable is established. We, however, recognize a contract liability when a customer prepays for goods and/or services, or we have not delivered goods under the contract since we have not yet transferred control of the goods and/or services.

The balances of our trade receivables are as follows:

	June 30, 2022	June 30, 2021
Accounts Receivable	\$ 1,322,619	\$ 2,542,429

The balance of contract assets was immaterial as we did not have a significant amount of un-invoiced receivables in the periods ended June 30, 2022 and June 30, 2021.

An amount of \$837,000 is included in the Accounts Receivable balance as of June 30, 2022, which is the direct result of an agreement between our vendor and our customer where we acted as facilitator. There is a corresponding balance of \$837,000 in our Accounts Payable balance as of June 30, 2022. We expect to settle our liability with the vendor once the amount is received from the customer.

	June 30, 2022	June 30, 2021
Undelivered products	\$ 371,624	\$ 140,000

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of measurement in Topic 606. At contract inception, we assess the products and services promised in our contracts with customers. We then identify performance obligations to transfer distinct products or services to the customer. To identify performance obligations, we consider all the products or services promised in the contract regardless of whether they are explicitly stated or are implied by customary business practices.

Our performance obligations are satisfied at a point in time. Revenue from products transferred to customers at a single point in time accounted for over 99% of net sales for the year ended June 30, 2022. Revenue for non-recurring engineering projects is based on the percentage completion of a project and accounted for under 1% of net sales for the year ended June 30, 2022. Most of our revenue that is recognized at a point in time is for the sale of hot-spot router products. Revenue from these contracts is recognized when the customer can direct the use of and obtain substantially all of the benefits from the product, which generally coincides with title transfer at completion of the shipping process.

As of June 30, 2022, our contracts do not contain any unsatisfied performance obligations, except for undelivered products.

Cost of Goods Sold

All costs associated with our contract manufacturers, as well as distribution, fulfillment and repair services, are included in our cost of goods sold. Cost of goods sold also includes amortization expenses of approximately \$500,000 and \$360,000 associated with capitalized product development costs associated with complete technology for the years ended June 30, 2022, and 2021, respectively.

Capitalized Product Development Costs

Accounting Standards Codification (“ASC”) Topic 350, “Intangibles - Goodwill and Other” includes software that is part of a product or process to be sold to a customer and shall be accounted for under Subtopic 985-20. Our products contain embedded software internally developed by FTI, which is an integral part of these products because it allows the various components of the products to communicate with each other and the products are clearly unable to function without this coding.

The costs of product development that are capitalized once technological feasibility is determined (noted as technology in progress in the Intangible Assets table in Note 2 to Notes to Consolidated Financial Statements) include related licenses, certification costs, payroll, employee benefits, and other headcount-related expenses associated with product development. We determine that technological feasibility for our products is reached after all high-risk development issues have been resolved. Once the products are available for general release to our customers, we cease capitalizing the product development costs and any additional costs, if any, are expensed. The capitalized product development costs are amortized on a product-by-product basis using the greater of straight-line amortization or the ratio of the current gross revenues to the current and anticipated future gross revenues. The amortization begins when the products are available for general release to our customers.

As of June 30, 2022, and June 30, 2021, capitalized product development costs in progress were \$187,343 and \$602,388, respectively, and these amounts are included in intangible assets in our consolidated balance sheets. During the year ended June 30, 2022, we incurred \$658,544 in capitalized product development costs, and all costs incurred before technological feasibility is reached are expensed and included in our consolidated statements of comprehensive income.

Research and Development Costs

Costs associated with research and development are expensed as incurred. Research and development costs were \$4,282,131 and \$4,567,863 for the years ended June 30, 2022, and 2021, respectively.

Warranties

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

Shipping and Handling Costs

Costs associated with product shipping and handling are expensed as incurred. Shipping and handling costs, which are included in selling, general and administrative expenses on the statements of comprehensive income, were \$246,290 and \$723,617 for the years ended June 30, 2022, and 2021, respectively.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flow, we consider all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. We invest our excess cash into financial instruments which management believes are readily convertible into cash, such as money market funds that are readily convertible to cash and have a \$1.00 net asset value.

Short Term Investments

We have invested excess funds in short term liquid assets, such as certificates of deposit or money market funds.

Inventories

Our inventories consist of finished goods and are stated at the lower of cost or net realizable value, cost being determined on a first-in, first-out basis. We assess the inventory carrying value and reduce it, if necessary, to its net realizable value based on customer orders on hand, and internal demand forecasts using management's best estimates given information currently available. Our customer demand is highly unpredictable and can fluctuate significantly caused by factors beyond our control. We may write down our inventory value for potential obsolescence and excess inventory. As of June 30, 2022, and 2021, we have recorded inventory reserves in the amount of \$557,155 and \$0, respectively, for inventories that we have identified as obsolete or slow-moving.

Property and Equipment

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

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

Goodwill and Intangible Assets

Goodwill and certain intangible assets were recorded in connection with the FTI acquisition in October 2009, and were accounted for in accordance with ASC 805, "Business Combinations." Goodwill represents the excess of the purchase price over the fair value of the tangible and intangible net assets acquired. Intangible assets are recorded at their fair value at the date of acquisition. Goodwill and other intangible assets are accounted for in accordance with ASC 350, "Goodwill and Other Intangible Assets." Goodwill and other intangible assets are tested for impairment at least annually and any related impairment losses are recognized in earnings when identified. No impairment was recognized during the years ended June 30, 2022, and 2021.

Intangible Assets

The definite lived intangible assets consisted of the following as of June 30, 2022:

Definite lived intangible assets:	Expected Life	Average Remaining life	Gross Intangible Assets	Less Accumulated Amortization	Net Intangible Assets
Complete technology	3 years	–	18,397	18,397	–
Technology in progress	Not Applicable	–	187,343	–	187,343
Software	5 years	2.0 years	423,147	314,855	108,292
Patents	10 years	2.5 years	21,543	15,122	6,421
Certifications & licenses	3 years	1.1 years	2,144,359	1,096,359	1,048,000
Total as of June 30, 2022			\$ 2,794,789	1,444,733	1,350,056

The definite lived intangible assets consisted of the following as of June 30, 2021:

Definite lived intangible assets:	Expected Life	Average Remaining life	Gross Intangible Assets	Less Accumulated Amortization	Net Intangible Assets
Complete technology	3 years	0.5 years	18,397	15,331	3,066
Technology in progress	Not Applicable	–	602,388	–	602,388
Software	5 years	3.0 years	399,811	268,495	131,316
Patents	10 years	3.9 years	21,105	12,951	8,154
Certifications & licenses	3 years	1.6 years	1,070,770	568,944	501,826
Total as of June 30, 2021			\$ 2,112,471	\$ 865,721	\$ 1,246,750

Amortization expense recognized during the years ended June 30, 2022, and 2021 was \$579,012 and \$435,571, respectively. For the year ended June 30, 2021, we disposed the fully amortized intangible assets in the amount of \$3,228,261 and a technology in progress in the amount of \$140,192 as we identified it has the great unlikelihood of economic success based on its performance test results. The amortization expenses of the definite lived intangible assets for the next five years and thereafter are as follows:

	<u>FY2023</u>	<u>FY2024</u>	<u>FY2025</u>	<u>FY2026</u>	<u>FY2027</u>	<u>Thereafter</u>
Total	\$ 557,856	\$ 381,973	\$ 181,342	\$ 14,042	\$ 10,000	\$ 17,500

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 significant negative industry or economic trends. An impairment loss would be recognized when estimated future cash flows expected to result from the use of the asset are less than its carrying amount.

We are not aware of any events or changes in circumstances during the year ended June 30, 2022, that would indicate that the long-lived assets are impaired.

Stock-based Compensation

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

Income Taxes

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

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

(Loss) Earnings per Share Attributable to Common Stockholders

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

Concentrations of Credit Risk

We extend credit to our customers and perform ongoing credit evaluations of such customers. We evaluate our accounts receivable on a regular basis for collectability and provide for an allowance for potential credit losses as deemed necessary. No reserve was required or recorded for any of the periods presented.

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

A significant portion of our revenue is derived from a small number of customers. For the year ended June 30, 2022, net sales to our two largest customers represented 70% and 13% of our consolidated net sales, respectively, and 0% of our accounts receivable balance as of June 30, 2022. For the year ended June 30, 2021, net sales to our two largest customers represented 63% and 30% of our consolidated net sales, respectively, and 0% and 84% of our accounts receivable balance as of June 30, 2021. No other customer accounted for more than ten percent of total net sales.

For the year ended June 30, 2022, we purchased the majority of our wireless data products from two manufacturing companies located in Asia. If they were to experience delays, capacity constraints or quality control problems, product shipments to our customers could be delayed, or our customers could consequently elect to cancel the underlying product purchase order, which would negatively impact our revenue. For the year ended June 30, 2022, we purchased wireless data products from these suppliers in the amount of \$22,319,313, or 98.3% of total purchases, and had related accounts payable of \$7,409,273 as of June 30, 2022. For the year ended June 30, 2021, we purchased wireless data products from these suppliers in the amount of \$138,516,044, or 99% of total purchases, and had related accounts payable of \$9,096,451 as of June 30, 2021.

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

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, Financial Instruments – Credit Losses, which changes the methodology to be used to measure credit losses for certain financial instruments and financial assets, including trade receivables. The new methodology requires the recognition of an allowance that reflects the current estimate of credit losses expected to be incurred over the life of the financial asset. The Company adopted the standard on July 1, 2020. The new standard did not have a material impact on its consolidated financial statements.

In February 2018, the FASB issued Accounting Standards Update (ASU) 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. Under the amendments in ASU 2018-02, an entity may elect to reclassify the income tax effects of the Tax Cuts and Jobs Act of 2017 on items within accumulated other comprehensive income to retained earnings. The adoption of this update does not have a material impact the Company's consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which among other things, eliminates certain exceptions in the current rules regarding the approach for intraperiod tax allocations and the methodology for calculating income taxes in an interim period, and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The Company adopted the standard on July 1, 2021. The new standard did not have a material impact on its consolidated financial statements.

NOTE 3 - FAIR VALUE MEASUREMENTS

Fair value accounting is applied for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis (at least annually). Assets and liabilities recorded at fair value in the financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, which are directly related to the amount of subjectivity, associated with the inputs to the valuation of these assets or liabilities are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.
- Level 2 inputs are observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 inputs are unobservable inputs for the asset or liability.

The carrying values of the Company's financial instruments, including cash and cash equivalents, short-term investments, accounts receivable, and accounts payable and debt, are calculated based on their approximate fair values due to the short period of time to maturity or repayment. We invest our excess cash into financial instruments which management believes are readily convertible into cash, such as money market funds and certificates of deposit.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of:

	June 30, 2022	June 30, 2021
Machinery and Commercial Equipment	\$ 67,848	\$ 67,044
Office equipment	312,785	291,191
Molds	575,552	575,552
Vehicle	15,513	-
	<u>971,698</u>	<u>933,787</u>
Less accumulated depreciation	(865,746)	(782,177)
Total	\$ 105,952	\$ 151,610

Depreciation expense associated with property and equipment was \$87,743 and \$90,322 for the fiscal years ended June 30, 2022, and 2021, respectively, and is included in selling, general, and administrative expenses on the consolidated statements of comprehensive (loss) income. For the years ended June 30, 2022 and 2021, we disposed of fully depreciated property and equipment in the amounts of \$4,175 and \$812,416, respectively.

NOTE 5 - ACCRUED LIABILITIES

Accrued liabilities consisted of the following as of:

	June 30, 2022	June 30, 2021
Accrued payroll deductions owed to government entities	\$ 55,387	\$ 66,307
Accrued vacation	65,602	73,900
Accrued undelivered inventory	140,000	140,000
Accrued commission for service providers	40,000	52,500
Accrued commission to a customer	288,306	451,898
Other accrued liabilities	612	920
Total	\$ 589,907	\$ 785,525

NOTE 6 - INCOME TAXES

Income tax (benefit) provision for the years ended June 30, 2022, and 2021 consists of the following:

	Year Ended June 30,	
	2022	2021
Current income tax (benefit) expense:		
Federal	\$ (127,998)	\$ 4,217,883
State	975	(525)
Foreign	49,843	256,636
	<u>(77,180)</u>	<u>4,473,994</u>
Deferred income tax (benefit) expense:		
Federal	(876,513)	142,242
State	(83,375)	155,410
Foreign	-	267,649
	<u>(959,888)</u>	<u>565,301</u>
(Benefit) provision for income taxes	\$ (1,037,068)	\$ 5,039,295

The (benefit) provision for income taxes reconciles to the amount computed by applying the effective federal statutory income tax rate to the income before provision for income taxes as follows:

	Year Ended June 30,	
	2022	2021
Federal income tax, at statutory rate of 21% applied to (loss) earnings before income taxes and extraordinary items	\$ (982,130)	\$ 4,929,611
State tax, net of federal tax benefit	(82,840)	125,237
Nondeductible expenses	870	22,688
R&D credits	(46,643)	(56,950)
Global intangible low-taxed income	152,930	95,419
Foreign rate difference	(16,279)	39,146
Others	(62,976)	(13,523)
Forgiveness of payroll protection plan loan	–	(102,333)
Change in valuation allowance	–	–
(Benefit) provision for income taxes	\$ (1,037,068)	\$ 5,039,295

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

	June 30, 2022	June 30, 2021
Deferred tax asset:		
Net operating losses	\$ 737,258	\$ 170,649
State tax	–	–
Lease accounting, net	4,299	7,035
Intangibles	156,334	84,831
Tax credits	202,958	133,451
Inventory reserve	155,133	30,591
Other, net	145,679	12,693
Total deferred tax assets	<u>1,401,661</u>	<u>439,250</u>
Deferred tax liabilities:		
Deferred state taxes	(46,565)	(29,056)
State tax	(205)	(110)
Property and equipment, net	(7,865)	(22,536)
Total deferred tax liabilities	<u>(54,225)</u>	<u>(51,702)</u>
Less valuation allowance	–	–
Net deferred tax asset	\$ 1,347,436	\$ 387,548

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 our gross deferred tax assets, including the amount and timing of forecasted future taxable income. Management determined it is more likely than not that the federal deferred tax assets will be fully realized, and no valuation allowance is necessary as of June 30, 2022 or 2021.

As of June 30, 2022, we have federal and state net operating loss carryforwards of approximately \$3.3 million and \$40,000, respectively. Under the Tax Cuts and Jobs Act, which was signed into law on December 22, 2017, the federal net operating loss of approximately \$2.5 million, which was recognized on or after January 1, 2018, will carry forward indefinitely. The federal net operating loss of approximately \$0.8 million, which was recognized on or before December 31, 2017, will expire through 2035. The state net operating loss of approximately \$40,000 will begin to expire through 2042. The utilization of net operating loss carryforwards may be subject to limitations under provisions of the Internal Revenue Code Section 382 and similar state provisions.

We apply the provisions of ASC 740 related to accounting for uncertain tax positions, 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.

A reconciliation of the beginning and ending balance of unrecognized tax benefits, which have been considered in the Company's computation of its deferred tax assets, is as follows:

Balance as of June 30, 2020	\$	296,832
Gross increase		38,427
Balance as of June 30, 2021		<u>335,259</u>
Gross increase		29,789
Balance as of June 30, 2022	\$	<u><u>365,048</u></u>

We do not anticipate any material change in the total amount of unrecognized tax benefits to occur within the next twelve months. ASC 740 requires us to accrue interest and penalties where there is an underpayment of taxes based on our best estimate of the amount ultimately to be paid. Our policy is to recognize interest accrued related to unrecognized tax benefits and penalties as income tax expense. We have not recorded any interest or penalties as the liability associated with the unrecognized tax benefits is immaterial. We are subject to taxation in the U.S., and various state and foreign jurisdictions.

NOTE 7 – (LOSS) EARNINGS PER SHARE

We report (loss) earnings per share in accordance with ASC 260, “Earnings Per Share.” Basic (loss) earnings per share are computed using the weighted average number of shares outstanding during the period. Diluted (loss) earnings per share represent basic earnings per share adjusted to include the potentially dilutive effect of outstanding stock options by using the treasury stock method that the proceeds we receive from an in-the-money option exercise are used towards repurchasing common shares in the market. For the year ended June 30, 2022, we were in a net loss position and have excluded 766,001 stock options from the calculation of diluted net loss per share because these securities are anti-dilutive. For the year ended June 30, 2021, we have calculated the diluted effect of common stocks arising from 484,000 stock options.

The weighted average number of shares outstanding used to compute (loss) earnings per share is as follows:

	<u>Year Ended June 30,</u>	
	<u>2022</u>	<u>2021</u>
Net (loss) income attributable to Parent Company	<u>\$ (3,762,848)</u>	<u>\$ 17,699,035</u>
Weighted-average shares of common stock outstanding:		
Basic	11,613,812	11,350,946
Dilutive effect of common stock equivalents arising from stock options	–	241,955
Diluted Outstanding shares	<u>11,613,812</u>	<u>11,592,901</u>
Basic (loss) earnings per share attributable to Parent Company stockholders	<u>\$ (0.32)</u>	<u>\$ 1.56</u>
Diluted (loss) earnings per share attributable to Parent Company stockholders	<u>\$ (0.32)</u>	<u>\$ 1.53</u>

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Leases

In February 2016, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02 (Topic 842). Topic 842 amended several aspects of lease accounting, including requiring lessees to recognize leases with a term greater than one year as a right-of-use asset and corresponding liability, measured at the present value of the lease payments. In July 2018, the FASB issued supplemental adoption guidance and clarification to Topic 842 within ASU 2018-10 “Codification Improvements to Topic 842, Leases” and ASU 2018-11 “Leases (Topic 842): Targeted Improvements.” The new guidance aims to increase transparency and comparability among organizations by requiring lessees to recognize lease assets and lease liabilities on the balance sheet and requiring disclosure of key information about leasing arrangements. A modified retrospective application is required with an option to not restate comparative periods in the period of adoption.

The Company, effective July 1, 2019 has adopted the provisions of the new standard. The Company decided to use the practical expedients available upon adoption of Topic 842 to aid the transition from current accounting to provisions of Topic 842. The package of expedients will effectively allow the Company to run off existing leases, as initially classified as operating and classify new leases after implementation under the new standard as the business evolves.

The Company has an operating lease principally for both Franklin Wireless Corp. and Franklin Technologies Inc. Management evaluates each lease independently to determine the purpose, necessity to its future operations in addition to other appropriate facts and circumstances.

The Company adopted Topic 842 using a modified retrospective approach for its existing lease at July 1, 2019. The adoption of Topic 842 impacted the Company’s balance sheet by the recognition of the operating lease right-of-use assets and the liability for operating leases. The lease liability is based on the present value of the remaining lease payments, discounted using a market based incremental borrowing rate as the effective date of July 1, 2019 using current estimates as to lease term including estimated renewals for each operating lease.

On September 9, 2015, we signed a lease for new office space consisting of approximately 12,775 square feet, located in San Diego, California, which commenced on October 28, 2015. In addition to monthly rent, the new lease includes payment for certain common area costs. The term of the lease for the new office space was four years from the lease commencement date and was then extended at a monthly rent of \$25,754, by an additional fifty months to December 31, 2023. Our facility is covered by an appropriate level of insurance, and we believe it to be suitable for our use and adequate for our present needs.

Our Korea-based subsidiary, FTI, leases approximately 10,000 square feet of office space, at a monthly rent of approximately \$8,000, and additional office space consisting of approximately 2,682 square feet at a monthly rent of approximately \$2,700, both located in Seoul, Korea. These leases expired on August 31, 2022 but extended by an additional twelve months to August 31, 2023. In addition to monthly rent, the leases provide for periodic cost of living increases in the base rent and payment for certain common area costs. These facilities are covered by an appropriate level of insurance, and we believe them to be suitable for our use and adequate for our present needs. We lease one corporate housing facility, located in Seoul, Korea, primarily for our employees who travel, under a non-cancelable operating lease that expired on September 4, 2022, and extended by an additional twelve months to September 4, 2023.

Rent expense for the years ended June 30, 2022, and 2021 was \$446,057 and \$446,614, respectively. Future minimum payments under operating leases are as follows:

	Payments due by June 30,		Total
	2023	2024	
Administrative office, San Diego, CA	\$ 321,930	\$ 160,965	\$ 482,895
Total Obligations	\$ 321,930	\$ 160,965	\$ 482,895

As of June 30, 2022, we used discount rates of 4.0% in determining our operating lease liabilities for the office spaces in San Diego, California. This rate represented our incremental borrowing rates at that time. Short-term leases with initial terms of twelve months or less are not capitalized, and our lease of the South Korean offices has been considered as short-term lease. Our San Diego office lease was extension of previous lease and did not contain any further extension provisions.

Future minimum payments under operating leases are as follows:

	Operating Leases
Fiscal 2023	\$ 321,930
Fiscal 2024	160,965
Total lease payments	482,895
Less imputed interest	(14,957)
Total	\$ 467,938

Litigation

We are from time to time involved in certain legal proceedings and claims arising in the ordinary course of business.

Verizon Jetpack Recall

On April 8, 2021, Verizon issued a press release announcing that it is working with the U.S. Consumer Product Safety Commission (CPSC) to conduct a voluntary recall of certain Verizon Ellipsis Jetpack mobile hotspot devices, indicating that the lithium-ion battery in the devices can overheat, posing a fire and burn hazard. According to the CPSC release, the recall affects approximately 2.5 million devices. We import the devices and supply them to Verizon.

Verizon first advised us of one alleged Jetpack device failure at the end of February 2021. We immediately began meeting with Verizon and requested access to the device. We also began internal testing to evaluate device performance. We did not receive any further incident information until the last week of March 2021. On April 1, 2021 we issued a press release announcing that we had received reports from Verizon about potential issues with the batteries in the devices. On April 9, 2021 we issued a press release announcing the voluntary recall by Verizon.

As of the date of this report, we have been unable to recreate any device failures of the type identified by Verizon. All internal testing conducted to date has confirmed that the Jetpack devices are performing within normal parameters. We are not currently aware of any aspect of the Jetpack design that could cause the devices to fail in the way described in Verizon's recall notice.

Future Impact on Financial Performance

We are striving to avoid any litigation arising from the recall and have not been served with any legal action relating to the products covered by the recall. We are not currently able to estimate the financial impact of the recall on our future operations. At this time, we do not have information that identifies the cause of the alleged incidents. We also do not have any specific legal claims or theories of causation for device failure incidents that would help us estimate the cost of potential future litigation. No liability has been recorded for this litigation because the Company believes that any such liability is not probable and reasonably estimable at this time.

Shareholder Litigation

Ali

A shareholder action, *Ali vs. Franklin Wireless Corp. et al.* Case #3:21-cv-00687-AJB-MSB, was filed in the U.S. District Court, Southern District of California (San Diego) on April 16, 2021, alleging, among other things, that we had prior knowledge that the recall was likely and that we did not disclose that information to investors in a timely manner. We believe these allegations are not supported by the facts and we will vigorously defend against such claims. Discovery is ongoing at this time.

Harwood / Martin

A legal action was filed in the U.S. District Court, Southern District of California (San Diego) against Franklin, as a nominal defendant, Stephen Norwood Derivatively on Behalf of Nominal Defendant Franklin Wireless Corp. v. OC Kim, Et al., Case #21cv01837-JAH-DEB, on or about October 29, 2021, claiming among other things, that we had prior knowledge that the recall was likely and that we did not disclose that information to investors in a timely manner. We believe these allegations are not supported by the facts and we will vigorously defend against such claims.

A legal action was filed in the U.S. District Court, Southern District of California (San Diego) against Franklin, as a nominal defendant, by Debra Martin, derivatively on behalf of nominal defendant Franklin Wireless Corp. v. OC Kim, Et al., Case #21cv2091-CAB-KSC, on or about December 15, 2021, claiming among other things, that we had prior knowledge that the recall was likely and that we did not disclose that information to investors in a timely manner. We believe these allegations are not supported by the facts and we will vigorously defend against such claims.

The Harwood and Martin actions have recently been consolidated into a single action in the U.S. District Court, Southern District of California (San Diego) titled "In re Franklin Wireless Corp. Derivative Litigation", Case No.: 21cv1837-AJB (MSB). Discovery is ongoing at this time.

Pape

A legal action was filed in the Second Judicial District Court of Nevada in the County of Washoe against Franklin, as a nominal defendant, Barbara Pape, derivatively on behalf of nominal defendant Franklin Wireless Corp. v. OC Kim, Et al., Case # CV22-00471, on or about March 21, 2022, claiming among other things, that we had prior knowledge that the recall was likely and that we did not disclose that information to investors in a timely manner. We believe these allegations are not supported by the facts and we will vigorously defend against such claims.

The Company will vigorously defend such shareholder litigation and proceedings. No liability has been recorded for these litigations because the Company believes that any such liability is not probable and reasonably estimable at this time.

“Short-Swing” Profits Litigation

A legal action was filed in the U.S. District Court, Southern District of California (San Diego) against Franklin, as a nominal defendant, Nosirrah Management LLC v. Franklin Wireless et al. Case # 3:21-cv-01316-CAB-JLB, on or about July 22, 2021, claiming that our Chief Executive Officer, OC Kim, violated Section 16(b) of the Securities Exchange Act of 1934 for receiving “short-swing” profits from a sale and purchase of Franklin shares, in violation of that Act. We believe the allegations are not supported by the facts and we intend to vigorously defend against these claims. No liability has been recorded for this litigation because the Company believes that any such liability is not probable and reasonably estimable at this time.

Franklin v. Anydata, Inc.

We entered into a Professional Services Agreement with Anydata Corp. (“Anydata”) for the product ACT233F Smart Link OBD device on May 5, 2017, for a minimum purchase commitment of 250,000 units. We have delivered approximately 25,000 units and 7,000 units during our second and fourth quarters of fiscal 2018, respectively, and an additional 18,000 units during our first quarter of fiscal 2019. Sales to Anydata were approximately \$1.8 million for the year ended June 30, 2019. We have received information that Anydata may not be able to fulfill the entire purchase commitment for which parts have already been ordered with our main vendor, Quanta. We believe that the Company will be able to supply some of the products to another customer and has received personal guarantees from the ownership group of Anydata. As of June 30, 2019, the remaining unfulfilled purchase commitment was approximately \$3.1 million. The total product purchase commitment with Quanta was approximately \$2.9 million. We have not recorded a receivable from Anydata, nor a liability owed to Quanta. Management believes that, at this time, a loss contingency is reasonably possible but not estimable as to how much ultimately would be paid to Quanta. As of June 30, 2020, we paid \$100,000 for the right to call on inventory and recorded an additional \$49,580 as a prepaid expense related to pricing adjustments, which has been agreed with Quanta for other products to ensure demand is met, and for the quarter ended December 31, 2020, the prepaid expense of \$149,580 has been recorded as a cost of goods sold. As of March 31, 2022, there is a reasonable possibility we may incur a loss; however, the amount is not estimable at this time. On January 25th, 2021, we commenced legal action against Anydata and its principal officers in San Diego Superior Court, case number 37-2021-00003468-CU-BC-CTL. As of the date of this report, litigation is continuing, and the action is not yet resolved.

COVID-19

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. On March 19, 2020, the Governor of California declared a health emergency and issued an order to close all nonessential businesses until further notice. As a maker of wireless connectivity devices, we are deemed to be an essential business. Nonetheless, out of concern for our workers and pursuant to the government order, we reduced the scope of our operations and, where possible, certain workers began telecommuting from their homes. The continued spread of COVID-19 may result in a period of business disruption, including delays or disruptions in our supply chain. The spread of COVID-19, or another infectious disease, could also negatively affect the operations at our third-party manufacturers, which could result in delays or disruptions in the supply of our products. While we expect this situation may increase demand for its products, the related impact cannot be reasonably estimated at this time.

Change of Control Agreements

On October 1, 2020, we entered into Change of Control Agreements with OC Kim, our President, and Yun J. (David) Lee, our Chief Operating Officer. Each Change of Control Agreement provides for a lump sum payment to the officer in case we experience a change of control. The term includes the acquisition of our Common Stock 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 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 our outstanding Common Stock, or a liquidation or dissolution or sale of substantially all of our assets.

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

International Tariffs

We believe that our products are currently exempt from international tariffs upon import from our manufacturers to the United States. If this were to change at any point, a tariff of 10%-25% of the purchase price would be imposed. If such tariffs are imposed, they could have a materially adverse effect on sales and operating results.

Customer Indemnification

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.

NOTE 9 - LONG-TERM INCENTIVE PLAN AWARDS

We apply the provisions of ASC 718, "Compensation - Stock Compensation," to all of our stock-based compensation awards, and use the Black-Scholes option pricing model to value stock options. Under this application, we record compensation expense for all awards granted. Compensation costs will be recognized over the period that an employee provides service in exchange for the award, i.e. the vesting period.

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

In July of 2020, the Board of Directors adopted the 2020 Franklin Wireless Corp. Stock Option Plan, which covers 800,000 shares of Common Stock. The Plan provide for the grant of incentive stock options, non-qualified stock options and restricted stock to our employees, directors, and independent contractors. These options will have such vesting or other provisions as may be established by the Board of Directors at the time of each grant.

The estimated forfeiture rate considers historical turnover rates stratified into employee pools in comparison with an overall employee turnover rate, as well as expectations about the future. We periodically revise the estimated forfeiture rate in subsequent periods if actual forfeitures differ from those estimates. There were \$545,841 and \$380,758 compensation expenses recorded under this method for the years ended June 30, 2022, and 2021, respectively.

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

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value
Outstanding as of June 30, 2020	251,291	\$ 1.05	1.95	\$ 1,124,525
Granted	299,000	5.40	—	—
Exercised	(61,291)	1.22	—	—
Forfeited or expired	(5,000)	5.40	—	—
Outstanding as of June 30, 2021	<u>484,000</u>	<u>\$ 3.67</u>	<u>2.83</u>	<u>\$ 2,662,830</u>
Granted	388,000	3.38	—	—
Exercised	(93,999)	0.80	—	—
Forfeited or expired	(12,000)	5.40	—	—
Outstanding as of June 30, 2022	<u>766,001</u>	<u>\$ 3.85</u>	<u>3.37</u>	<u>\$ 183,270</u>
Exercisable as of June 30, 2022	<u>345,366</u>	<u>\$ 3.84</u>	<u>2.42</u>	<u>\$ 183,270</u>

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based upon the Company's closing stock price of \$3.1727 as of June 30, 2022, which would have been received by the option holders had all option holders exercised their options as of that date. The weighted-average grant-date fair value of stock options outstanding as of June 30, 2022, in the amount of 766,001 shares was \$3.17 per share.

As of June 30, 2022, there was unrecognized compensation cost of \$1,311,085 related to non-vested stock options granted.

Consent of Independent Certified Public Accountants.

As independent certified public accountants, we hereby consent to the use of and incorporation by reference of our report and to all references to us included in or made a part of this Franklin Wireless Corp. Form 10-K and into the Company's previously filed Registration Statement on Form S-8 (File Number 333-260006).

/s/ Paris, Kreit, and Chiu CPA LLP, (formerly as "Benjamin & Ko").

New York, NY
September 13, 2022

CERTIFICATION

I, OC Kim, certify that:

1. I have reviewed this Annual Report on Form 10-K of Franklin Wireless Corp.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 13, 2022

/s/ OC Kim
OC Kim
Principal Executive Officer

CERTIFICATION

I, David Brown, certify that:

1. I have reviewed this Annual Report on Form 10-K of Franklin Wireless Corp.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 13, 2022

/s/ David Brown
David Brown
Principal Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Franklin Wireless Corp. (the "*Company*") on Form 10-K for the fiscal year ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "*Report*"), I, OC Kim, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (a) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 13, 2022

/s/ OC Kim

OC Kim
Chief Executive Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Franklin Wireless Corp. (the "*Company*") on Form 10-K for the fiscal year ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "*Report*"), I, David Brown, Acting Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (a) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 13, 2022

/s/ David Brown

David Brown
Acting Chief Financial Officer