

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended **March 31, 2024**

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)

**3940 Ruffin Road
Suite C**

San Diego, California

(Address of principal executive offices)

92123

(Zip code)

(858) 623-0000

Registrant's telephone number, including area code

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, if any, 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 such files). Yes ☒ No ☐

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

Large accelerated filer ☐ 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 ☒

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

| | | |
|--|-------------------|---|
| Title of each class | Trading symbol(s) | Name of each exchange on which registered |
| Common Stock, par value \$.001 per share | FKWL | The Nasdaq Stock Market LLC |

The Registrant has 11,784,280 shares of common stock outstanding as of May 15, 2024.

FRANKLIN WIRELESS CORP.
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2024
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NOTE ON FORWARD LOOKING STATEMENTS

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

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

This Report on Form 10-Q contains statements which, to the extent they do not recite historical fact, constitute “forward looking” statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward looking statements are used under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operation,” and elsewhere in this Quarterly Report on Form 10-Q. You can identify these statements by the use of words like “may,” “will,” “could,” “should,” “project,” “believe,” “anticipate,” “expect,” “plan,” “estimate,” “forecast,” “potential,” “intend,” “continue,” and variations of these 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” in Item 1A of our Annual Report on Form 10-K for the year ended June 30, 2023. These forward looking statements are made only as of the date of this Report on Form 10-Q. We do not undertake to update or revise the forward looking statements, whether as a result of new information, future events or otherwise.

PART I – FINANCIAL INFORMATION

ITEM 1. Consolidated Financial Statements

FRANKLIN WIRELESS CORP. Consolidated Balance Sheets

| | March 31, 2024 (Unaudited) | June 30, 2023 |
|---|-------------------------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 7,004,494 | \$ 12,241,286 |
| Short-term investments | 24,732,707 | 26,728,313 |
| Accounts receivable | 10,262,320 | 8,949,802 |
| Advance to vendors | 57,043 | 53,875 |
| Other receivables, prepaid expenses, and other current assets | 128,504 | 51,125 |
| Inventories, net | 1,136,035 | 3,741,637 |
| Prepaid income taxes | 136,641 | – |
| Loan to an employee | 90,012 | 91,057 |
| Total current assets | 43,547,756 | 51,857,095 |
| Property and equipment, net | 126,046 | 101,088 |
| Intangible assets, net | 1,585,201 | 2,180,884 |
| Deferred tax assets, non-current | 2,809,830 | 2,235,515 |
| Goodwill | 273,285 | 273,285 |

| | | |
|---|----------------------|----------------------|
| Right of use assets | 1,542,462 | 152,665 |
| Other assets | 134,239 | 126,546 |
| TOTAL ASSETS | \$ 50,018,819 | \$ 56,927,078 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 6,281,925 | \$ 12,950,497 |
| Income tax payable | – | 6,556 |
| Contract liabilities and advance from customers | 195,599 | 146,488 |
| Accrued legal contingency expense | 2,400,000 | 2,400,000 |
| Accrued liabilities | 1,335,915 | 849,605 |
| Lease liabilities, current | 233,501 | 159,104 |
| Total current liabilities | 10,446,940 | 16,512,250 |
| Lease liabilities, non-current | 1,326,489 | – |
| Total liabilities | 11,773,429 | 16,512,250 |
| Commitments and contingencies (Note 6) | | |
| Stockholders' equity: | | |
| Parent Company stockholders' equity | | |
| Preferred stock, par value \$0.001 per share, authorized 10,000,000 shares; none issued and outstanding | – | – |
| Common stock, par value \$0.001 per share, authorized 50,000,000 shares; 11,784,280 shares issued and outstanding | 14,263 | 14,263 |
| Additional paid-in capital | 14,647,056 | 14,438,196 |
| Retained earnings | 26,903,234 | 29,101,225 |
| Treasury stock, 2,549,208 shares | (3,554,893) | (3,554,893) |
| Accumulated other comprehensive loss | (1,153,048) | (1,071,930) |
| Total Parent Company stockholders' equity | 36,856,612 | 38,926,861 |
| Noncontrolling interests | 1,388,778 | 1,487,967 |
| Total stockholders' equity | 38,245,390 | 40,414,828 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 50,018,819 | \$ 56,927,078 |

See accompanying notes to consolidated financial statements.

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

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---------------------------------|-------------------|--------------------------------|-----------------------|
| | 2024 | 2023 | 2024 | 2023 |
| Net sales | \$ 6,176,499 | \$ 11,851,971 | \$ 24,679,824 | \$ 28,944,554 |
| Cost of goods sold | 5,659,050 | 9,806,461 | 21,812,140 | 24,359,140 |
| Gross profit | 517,449 | 2,045,510 | 2,867,684 | 4,585,414 |
| Operating expenses: | | | | |
| Selling, general and administrative | 1,261,147 | 1,463,433 | 4,032,031 | 4,039,035 |
| Research and development | 811,470 | 1,052,672 | 2,531,279 | 2,999,207 |
| Total operating expenses | 2,072,617 | 2,516,105 | 6,563,310 | 7,038,242 |
| Loss from operations | (1,555,168) | (470,595) | (3,695,626) | (2,452,828) |
| Other (loss) income, net: | | | | |
| Interest income | 155,433 | 158,418 | 561,201 | 281,155 |
| Income from governmental subsidy | (59) | 7,197 | 16,507 | 41,510 |
| Gain from the forgiveness of accounts payable and accrued liabilities | – | 25,293 | – | 190,293 |
| Loss from foreign currency transactions | (366,078) | (199,226) | (217,606) | (75,004) |
| Other (loss) income, net | 142,788 | 111,888 | 460,363 | 152,971 |
| Total other (loss) income, net | (67,916) | 103,570 | 820,465 | 590,925 |
| Loss before benefit for income taxes | (1,623,084) | (367,025) | (2,875,161) | (1,861,903) |
| Income tax benefit | (312,764) | (578,664) | (577,981) | (563,181) |
| Net (loss) income | (1,310,320) | 211,639 | (2,297,180) | (1,298,722) |
| Less: non-controlling interests in net loss of subsidiary at 33.7% | (134,640) | (35,990) | (99,189) | (41,036) |
| Net (loss) income attributable to Parent Company | \$ (1,175,680) | \$ 247,629 | \$ (2,197,991) | \$ (1,257,686) |
| (Loss) income per share attributable to Parent Company stockholders – basic and diluted | \$ (0.10) | \$ 0.02 | \$ (0.19) | \$ (0.11) |
| Weighted average common shares outstanding – basic and diluted | 11,784,280 | 11,784,280 | 11,784,280 | 11,720,776 |
| Comprehensive (loss) income | | | | |
| Net (loss) income | \$ (1,310,320) | \$ 211,639 | \$ (2,297,180) | \$ (1,298,722) |
| Translation adjustments | (146,761) | (139,752) | (81,118) | (65,713) |
| Comprehensive (loss) income | (1,457,081) | 71,887 | (2,378,298) | (1,364,435) |

| | | | | |
|---|-----------------------|-------------------|-----------------------|-----------------------|
| Less: comprehensive loss attributable to non-controlling interest | (134,640) | (35,990) | (99,189) | (41,036) |
| Comprehensive (loss) income attributable to controlling interest | \$ (1,322,441) | \$ 107,877 | \$ (2,279,109) | \$ (1,323,399) |

See accompanying notes to consolidated financial statements.

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FRANKLIN WIRELESS CORP.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Three and Nine Months Ended March 31, 2024 (unaudited)

| | 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, 2023 | 11,784,280 | \$ 14,263 | \$ 14,438,196 | \$ 29,101,225 | \$ (3,554,893) | \$ (1,071,930) | \$ 1,487,967 | \$ 40,414,828 |
| Net loss attributable to Parent Company | — | — | — | (1,022,311) | — | — | — | (1,022,311) |
| Foreign exchange translation | — | — | — | — | — | 65,643 | — | 65,643 |
| Comprehensive income attributable to noncontrolling interest | — | — | — | — | — | — | 35,451 | 35,451 |
| Stock based compensation | — | — | 138,780 | — | — | — | — | 138,780 |
| Balance - December 31, 2023 (unaudited) | 11,784,280 | \$ 14,263 | \$ 14,576,976 | \$ 28,078,914 | \$ (3,554,893) | \$ (1,006,287) | \$ 1,523,418 | \$ 39,632,391 |
| Net loss attributable to Parent Company | — | — | — | (1,175,680) | — | — | — | (1,175,680) |
| Foreign exchange translation | — | — | — | — | — | (146,761) | — | (146,761) |
| Comprehensive loss attributable to noncontrolling interest | — | — | — | — | — | — | (134,640) | (134,640) |
| Stock based compensation | — | — | 70,080 | — | — | — | — | 70,080 |
| Balance - March 31, 2024 (unaudited) | 11,784,280 | \$ 14,263 | \$ 14,647,056 | \$ 26,903,234 | \$ (3,554,893) | \$ (1,153,048) | \$ 1,388,778 | \$ 38,245,390 |

See accompanying notes to consolidated financial statements.

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FRANKLIN WIRELESS CORP.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Three and Nine Months Ended March 31, 2023 (unaudited)

| | 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, 2022 | 11,684,280 | \$ 14,163 | \$ 13,593,426 | \$ 31,964,246 | \$ (3,554,893) | \$ (984,152) | \$ 1,569,605 | \$ 42,602,395 |
| Net loss attributable to Parent Company | — | — | — | (1,505,315) | — | — | — | (1,505,315) |
| Foreign exchange translation | — | — | — | — | — | 74,039 | — | 74,039 |
| Issuance of stock related to stock option exercised | 100,000 | 100 | 133,900 | — | — | — | — | 134,000 |
| Compensation expense related to stock option granted | — | — | 360,525 | — | — | — | — | 360,525 |
| Comprehensive loss attributable to non-controlling interest | — | — | — | — | — | — | (5,046) | (5,046) |
| Balance - December 31, 2022 (unaudited) | 11,784,280 | \$ 14,263 | \$ 14,087,851 | \$ 30,458,931 | \$ (3,554,893) | \$ (910,113) | \$ 1,564,559 | \$ 41,660,598 |
| Net income attributable to Parent Company | — | — | — | 247,629 | — | — | — | 247,629 |
| Foreign exchange translation | — | — | — | — | — | (139,752) | — | (139,752) |
| Compensation expense related to stock option granted | — | — | 176,397 | — | — | — | — | 176,397 |
| Comprehensive loss attributable to non-controlling interest | — | — | — | — | — | — | (35,990) | (35,990) |
| Balance - March 31, 2023 (unaudited) | 11,784,280 | \$ 14,263 | \$ 14,264,248 | \$ 30,706,560 | \$ (3,554,893) | \$ (1,049,865) | \$ 1,528,569 | \$ 41,908,882 |

See accompanying notes to consolidated financial statements.

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FRANKLIN WIRELESS CORP.
Consolidated Statements of Cash Flows (unaudited)

| | Nine Months Ended March 31, | |
|---|--------------------------------|----------------------|
| | 2024 | 2023 |
| CASH FLOW FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (2,297,180) | \$ (1,298,722) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 28,059 | 41,341 |
| Amortization of intangible assets | 722,476 | 595,218 |
| Stock based compensation | 208,860 | 536,922 |
| Forgiveness of debt | — | (190,293) |
| Amortization of right of use assets | (1,389,797) | 220,807 |
| Deferred tax (benefit) provision | (574,315) | (558,631) |
| Increase (decrease) in cash due to change in: | | |
| Accounts receivable | (1,312,518) | (5,895,731) |
| Advance to vendors | (3,168) | 117,436 |
| Other receivables, prepaid expenses, and other current assets | (77,379) | 1,628 |
| Prepaid income taxes | (136,641) | (10,363) |
| Inventories | 2,605,602 | (1,713,431) |
| Other assets | (7,693) | 837 |
| Accounts payable | (6,668,572) | 1,214,246 |
| Income tax payable | (6,556) | (5,532) |
| Contract liabilities and advance from customers | 49,111 | (62,965) |
| Lease liabilities | 1,400,886 | (230,466) |
| Accrued liabilities | 486,310 | 283,500 |
| Net cash used in operating activities | <u>(6,972,515)</u> | <u>(6,954,199)</u> |
| CASH FLOW FROM INVESTING ACTIVITIES: | | |
| Sales (purchases) of short-term investments | 1,995,606 | (71,927) |
| Purchases of property and equipment | (53,017) | (45,212) |
| Payments for capitalized product development costs | (121,708) | (1,601,998) |
| Purchases of intangible assets | (5,085) | (12,570) |
| Net cash provided by (used in) investing activities | <u>1,815,796</u> | <u>(1,731,707)</u> |
| CASH FLOW FROM FINANCING ACTIVITIES: | | |
| Loan to an employee | 1,045 | (90,045) |
| Cash received from exercise of stock options | — | 134,000 |
| Net cash provided by financing activities | <u>1,045</u> | <u>43,955</u> |
| Effect of foreign currency translation | (81,118) | (65,713) |
| Net decrease in cash and cash equivalents | (5,236,792) | (8,707,664) |
| Cash and cash equivalents, beginning of period | 12,241,286 | 26,277,418 |
| Cash and cash equivalents, end of period | <u>\$ 7,004,494</u> | <u>\$ 17,569,754</u> |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the periods for: | | |
| Income taxes | \$ (136,641) | \$ (800) |

See accompanying notes to consolidated financial statements.

FRANKLIN WIRELESS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary, Franklin Technology Inc. ("FTI"), with a majority voting interest of 66.3% (approximately 33.7% is owned by noncontrolling interests) as of March 31, 2024, and 2023. 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 noncontrolling 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 noncontrolling 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 March 31, 2024, or June 30, 2023.

Reclassifications

Certain amounts on the prior period's consolidated balance sheets were reclassified to conform to current-year presentation, with no effect on total stockholders' equity.

Noncontrolling Interest in a Consolidated Subsidiary

As of March 31, 2024, the noncontrolling interest was \$ 1,388,778, which represents a \$99,189 decrease from \$1,487,967 as of June 30, 2023. The decrease in the noncontrolling interest of \$99,189 was from loss in the subsidiary of \$ 294,700 incurred for the nine months ended March 31, 2024.

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.

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|-------------------|---------------------------------|----------------------|--------------------------------|----------------------|
| | 2024 | 2023 | 2024 | 2023 |
| Net sales: | | | | |
| North America | \$ 6,174,327 | \$ 11,720,894 | \$ 24,583,324 | \$ 28,778,479 |
| Asia | 2,172 | 131,077 | 96,500 | 166,075 |
| Totals | \$ 6,176,499 | \$ 11,851,971 | \$ 24,679,824 | \$ 28,944,554 |

| Long-lived assets, net (property and equipment and intangible assets): | March 31, 2024 | June 30, 2023 |
|---|-----------------------|----------------------|
| North America | \$ 1,492,015 | \$ 2,083,902 |
| Asia | 219,232 | 198,070 |
| Totals | \$ 1,711,247 | \$ 2,281,972 |

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.

Allowance for Doubtful Accounts

On July 1, 2023, we adopted ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held to maturity debt securities. It also applies to Off-Balance Sheet ("OBS") credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments and leases recognized by a lessor in accordance with Topic 842 on leases. Upon adoption of ASC 326 and based upon our review of our collection history as well as the current balances associated with all significant customers and associated invoices, as of March 31, 2024, we did not record any reserve for unfunded commitments and doubtful accounts.

Cash Flows Reporting

We follow ASC 230, Statements of Cash Flows, for cash flows reporting, which classifies cash receipts and payments according to whether they stem from operating, investing, or financing activities and provides definitions of each category. We use the indirect or reconciliation method ("Indirect method") as defined by ASC 230, Statement of Cash Flows, to report net cash flow from operating activities by adjusting net income to reconcile it to net cash flow from operating activities by removing the effects of all deferrals of past operating cash receipts and payments and all accruals of expected future operating cash receipts and payments and all items that are included in net (loss) income that do not affect operating cash receipts and payments.

Related Parties

We follow ASC 850, "Related Party Disclosures," for the identification of related parties and disclosure of related party transactions. Related parties are any entities or individuals that, through employment, ownership or other means, possess the ability to direct or cause the direction of our management and policies of the Company. (Refer to NOTE 8—RELATED PARTY TRANSACTIONS)

Foreign Currency Translations

We have a majority-owned subsidiary in a foreign country, South Korea. Fluctuations in foreign currency impact the amount of total assets, liabilities, earnings and cash flows that we report for our foreign subsidiary upon the translation of these amounts into U.S. Dollars for, and as of the end of, each reporting period. In particular, the strengthening of the U.S. Dollar generally will reduce the reported amount of our foreign-denominated cash, cash equivalents, total revenues and total expense that we translate into U.S. Dollars and report in our consolidated financial statements for, and as of the end of, each reporting period. However, a majority of our consolidated revenue is denominated in U.S. Dollars, and therefore, our revenue is not directly subject to foreign currency risk.

In accordance with ASC 830, when an operation has transactions denominated in a currency other than its functional currency, they are measured in the functional currency. Changes in the expected functional currency cash flows caused by changes in exchange rates are included in net income (loss) for the period.

Leases

In accordance with ASC 842, we determine whether an arrangement contains a lease at inception. A lease is a contract that provides the right to control an identified asset for a period of time in exchange for consideration. For identified leases, we determine whether it should be classified as an operating or finance lease. Operating leases are recorded in the balance sheet as right-of-use asset ("ROU asset") and operating lease obligation. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payment arising from the lease. ROU assets and operating lease liabilities are recognized at the commencement date of the lease and measure based on the present value of lease payment over the lease term. The ROU asset also includes deferred rent liabilities. Our lease arrangement generally does not provide an implicit interest rate. As a result, in such situations, we use its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We include options to extend or terminate the lease when it is reasonably certain that it will exercise that option in the measurement of its ROU assets and liabilities.

Lease expense for operating leases is recognized on a straight-line basis over the lease term. We are also electing not to apply the recognition requirements to short-term leases of twelve months or less and instead will recognize lease payments as expense on a straight-line basis over the lease term.

Revenue Recognition

In April 2016, the FASB issued Accounting Standards Update No. 2016-10, Revenue from Contracts with Customers (Topic 606) (ASU 2016-10), which amends and adds clarity to certain aspects of the guidance set forth in the original revenue standard (ASU 2014-09) related to identifying performance obligations and licensing. In May 2016, the FASB issued Accounting Standards Update No. 2016-11, Revenue Recognition (Topic 605), which amends and rescinds certain revenue recognition guidance previously released within ASU 2014-09. In May 2016 the FASB issued Accounting Standards Update No. 2016-12, Revenue from Contracts with Customers (Topic 606) (ASU 2016-12), which provides narrow scope improvements and practical expedients related to ASU 2014-09. The Company adopted ASU 2014-09 on July 1, 2018 using the modified retrospective method.

Contracts with Customers

Revenue from sales of products and services is derived from contracts with customers. The products and services promised in contracts primarily consist of hotspot 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 provisions for the nine months ended March 31, 2024 and 2023 were 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 prepay 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:

| | March 31, 2024 | June 30, 2023 |
|---------------------|----------------|---------------|
| Accounts Receivable | \$ 10,262,320 | \$ 8,949,802 |

The balance of contract assets was immaterial as we did not have a significant amount of un-invoiced receivables in the periods ended March 31, 2024, and June 30, 2023.

Our contract liabilities are as follows:

| | March 31, 2024 | June 30, 2023 |
|----------------------|----------------|---------------|
| Undelivered products | \$ 195,599 | \$ 146,488 |

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. In order 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 primarily satisfied at a point in time. Revenue from products transferred to customers at a single point in time accounted for 99.9% of net sales for the nine months ended March 31, 2024, and 2023. Revenue recognized over a period of time for non-recurring engineering projects is based on the percent complete of a project and accounted for 0.1% of net sales for the three and nine months ended March 31, 2024 and 2023. The majority of our revenue recognized at a point in time is for the sale of hotspot router products. Revenue from these contracts is recognized when the customer is able to 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 March 31, 2024 and 2023, 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 \$227,028 and \$706,340 associated with capitalized product development costs associated with complete technology for the three and nine months ended March 31, 2024, respectively, and \$229,884 and \$564,143 for the three and nine months ended March 31, 2023, 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 is 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 3 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 March 31, 2024, and June 30, 2023, capitalized product development costs in progress were \$ 131,588 and \$203,838, respectively, and these amounts are included in intangible assets in our consolidated balance sheets. For the three and nine months ended March 31, 2024, we incurred \$52,975 and \$121,708, respectively, and for the three and nine months ended March 31, 2023, we incurred \$ 555,018 and \$1,601,998 respectively, in capitalized product development costs, and such amounts are primarily comprised of certifications and licenses. All costs incurred before technological feasibility is reached are expensed and included in our consolidated statements of comprehensive income.

Research and Development Costs

Costs associated with research and development are expensed as incurred. Research and development costs were \$ 811,470 and \$1,052,672 for the three months ended March 31, 2024 and 2023, respectively, and \$2,531,279 and \$2,999,207 for the nine months ended March 31, 2024 and 2023, respectively.

Warranties

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

Shipping and Handling Costs

Costs associated with product shipping and handling are expensed as incurred. Shipping and handling costs, which are included in selling, general and administrative expenses on the consolidated statements of comprehensive income, were \$28,441 and \$58,730 for the three months ended March 31, 2024 and 2023, respectively, and \$129,100 and \$188,836 for the nine months ended March 31, 2024 and 2023, 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.

Inventories

Our inventories consist of finished goods and are stated at the lower of cost or net realizable value, cost being determined on a first-in, first-out basis. We assess the inventory carrying value and reduce it, if necessary, to its net realizable value based on customer orders on hand, and internal demand forecasts using management's best estimates given information currently available. Our customer demand is highly unpredictable and can fluctuate significantly caused by factors beyond the control of the Company. We may write down our inventory value for potential obsolescence and excess inventory. As of March 31, 2024, and June 30, 2023, we have recorded inventory reserves in the amount of \$74,548 and \$585,274 for obsolete or slow-moving inventories, respectively.

Property and Equipment

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

| | |
|------------------------|---------|
| Machinery | 6 years |
| Office equipment | 5 years |
| Molds | 3 years |
| Vehicles | 5 years |
| Computers and software | 5 years |

| | |
|-------------------------|--|
| Furniture and fixtures | 7 years |
| Facilities improvements | 5 years or life of the lease, whichever is shorter |

Goodwill and Intangible Assets

Goodwill and certain intangible assets were recorded in connection with the FTI acquisition in October 2009, and are accounted for in accordance with ASC 805, "Business Combinations." Goodwill represents the excess of the purchase price over the fair value of the tangible and intangible net assets acquired. Intangible assets are recorded at their fair value at the date of acquisition. Goodwill and other intangible assets are accounted for in accordance with ASC 350, "Goodwill and Other Intangible Assets." Goodwill and other intangible assets are tested for impairment at least annually and any related impairment losses are recognized in earnings when identified. No impairment was deemed necessary as of March 31, 2024, or June 30, 2023.

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.

As of March 31, 2024, and June 30, 2023, we were not aware of any events or changes in circumstances that would indicate that the long-lived assets are impaired.

Stock-based Compensation

Our 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. Compensation costs are recognized over the period that an employee provides service in exchange for the award, i.e., the vesting period. We estimate 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. 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

We use 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.

We assess 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, we record 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. We classify interest and penalties associated with such uncertain tax positions as a component of income tax expense.

As of March 31, 2024, we have no material unrecognized tax benefits. We recorded an income tax benefit of \$ 312,764 and \$577,981 for the three and nine months ended March 31, 2024, respectively, and an income tax benefit of \$578,664 and \$563,181 for the three and nine months ended March 31, 2023, respectively. We also recorded an increase in deferred tax asset, non-current, of \$308,123 and \$574,315 for the three and nine months ended March 31, 2024, respectively, and an increase in deferred tax asset, non-current, of \$573,314 and \$558,631 for the three and nine months ended March 31, 2023, respectively.

Earnings (loss) per Share Attributable to Common Stockholders

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

Concentrations

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

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

A significant portion of our revenue is derived from a small number of customers. For the nine months ended March 31, 2024, sales to our two largest customers accounted for 62% and 28% of our consolidated net sales, and 45% and 54% of our accounts receivable balance as of March 31, 2024. In the same period of 2023, sales to our two largest customers accounted for 64% and 27% of our consolidated net sales, and 0% and 85% of our

accounts receivable balance as of March 31, 2023.

For the nine months ended March 31, 2024, we purchased the majority of our wireless data products from two manufacturing companies located in Asia. If these manufacturing companies were to experience delays, capacity constraints or quality control problems, product shipments to our customers could be delayed, or our customers could consequently elect to cancel the underlying product purchase order, which would negatively impact the Company's revenue.

For the nine months ended March 31, 2024, we purchased wireless data products from these manufacturers in the amount of \$ 18,287,260, or 99.5% of total purchases and had related accounts payable of \$ 5,967,868 as of March 31, 2024. In the same period of 2023, we purchased wireless data products from these manufacturers in the amount of \$25,347,466, or 99% of total purchases and had related accounts payable of \$ 9,001,053 as of March 31, 2023.

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 November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2023-07, Improvements to Reportable Segment Disclosures (Topic 280). This ASU updates reportable segment disclosure requirements by requiring disclosures of significant reportable segment expenses that are regularly provided to the Chief Operating Decision Maker ("CODM") and included within each reported measure of a segment's profit or loss. This ASU also requires disclosure of the title and position of the individual identified as the CODM and an explanation of how the CODM uses the reported measures of a segment's profit or loss in assessing segment performance and deciding how to allocate resources. The ASU is effective for annual periods beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Adoption of the ASU should be applied retrospectively to all prior periods presented in the financial statements. Early adoption is also permitted. This ASU will likely result in the required additional disclosures being included in our consolidated financial statements, once adopted.

In December 2023, the FASB issued ASU No. 2023-09, Improvements to Income Tax Disclosures (Topic 740). The ASU requires disaggregated information about a reporting entity's effective tax rate reconciliation as well as additional information on income taxes paid. The ASU is effective on a prospective basis for annual periods beginning after December 15, 2024. Early adoption is also permitted for annual financial statements that have not yet been issued or made available for issuance. This ASU will likely result in the required additional disclosures being included in our consolidated financial statements, once adopted.

NOTE 2 – BUSINESS OVERVIEW

We are a leading provider of integrated wireless solutions utilizing the latest in 5G (fifth generation) and 4G LTE (fourth generation long-term evolution) technologies including mobile hotspots, routers, fixed wireless routers, and various trackers. Our integrated software subscription services provide users remote capabilities including mobile device management (MDM) and software defined wide area networking (SD-WAN).

We have majority ownership of Franklin Technology Inc. (FTI), a research and development company based in Seoul, South Korea. FTI primarily provides design and development services 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 primarily extends from North America to Asia.

NOTE 3 – BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Franklin Wireless Corp. have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and are presented in accordance with the requirements of Form 10-Q. In the opinion of management, the financial statements included herein contain all adjustments, including normal recurring adjustments, considered necessary to present fairly the financial position, the results of operations and comprehensive income (loss) and cash flows of the Company for the periods presented. These financial statements and notes hereto should be read in conjunction with the financial statements and notes thereto for the fiscal year ended June 30, 2023 included in our Form 10-K filed on September 28, 2023. The operating results or cash flows for the interim periods presented herein are not necessarily indicative of the results to be expected for any other interim period or the full year.

NOTE 4 – DEFINITE LIVED INTANGIBLE ASSETS, NET

The definite lived intangible assets consisted of the following as of March 31, 2024:

| 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 | – | 131,588 | – | 131,588 |
| Software | 5 years | 1.1 years | 423,853 | 358,727 | 65,126 |
| Patents | 10 years | 6.6 years | 64,969 | 25,746 | 39,223 |
| Certifications & licenses | 3 years | 1.6 years | 3,953,198 | 2,603,934 | 1,349,264 |
| Total as of March 31, 2024 | | | \$ 4,592,005 | \$ 3,006,804 | \$ 1,585,201 |

The definite lived intangible assets consisted of the following as of June 30, 2023:

| 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 | – | 203,838 | – | 203,838 |
| Software | 5 years | 1.6 years | 423,762 | 347,228 | 76,534 |
| Patents | 10 years | 7.0 years | 59,975 | 21,108 | 38,867 |
| Certifications & licenses | 3 years | 2.0 years | 3,759,240 | 1,897,595 | 1,861,645 |

Total as of June 30, 2023

\$ 4,465,212 2,284,328 2,180,884

Amortization expense recognized for the three months ended March 31, 2024 and 2023 was \$ 232,232 and \$234,325, respectively, and for the nine months ended March 31, 2024 and 2023 was \$722,476 and \$595,218, respectively.

The amortization expenses of the definite lived intangible assets for the future are as follows:

| | FY2024 | FY2025 | FY2026 | FY2027 | FY2028 | Thereafter |
|-------|------------|------------|------------|-----------|-----------|------------|
| Total | \$ 274,926 | \$ 776,357 | \$ 358,993 | \$ 19,295 | \$ 15,790 | \$ 8,252 |

NOTE 5 - ACCRUED LIABILITIES

Accrued liabilities consisted of the following as of:

| | March 31, 2024 | June 30, 2023 |
|--|----------------|---------------|
| Accrued payroll deductions owed to government entities | \$ 41,163 | \$ 52,923 |
| Accrued salaries and bonuses | 750,000 | 375,000 |
| Accrued vacation | 156,338 | 141,590 |
| Accrued commission for service providers | 22,500 | 32,500 |
| Accrued commission to a customer | 247,592 | 247,592 |
| Accrued rent expenses | 118,322 | — |
| Total | \$ 1,335,915 | \$ 849,605 |

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Leases

We adopted ASC 842 new lease accounting on July 1, 2019. We had an operating lease principally for both Franklin Wireless Corp. and Franklin Technologies Inc., in accordance with ASC 842.

We determine whether an arrangement contains a lease at inception. A lease is a contract that provides the right to control an identified asset for a period of time in exchange for consideration. Operating leases are recorded in the balance sheet as right-of-use asset ("ROU asset") and operating lease obligation. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payment arising from the lease ROU assets and operating lease liabilities are recognized at the commencement date of the lease and measure based on the present value of lease payment over the lease term. The ROU asset also includes deferred rent liabilities. Our lease arrangement generally does not provide an implicit interest rate. As a result, in such situations, we use its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We include options to extend or terminate the lease when it is reasonably certain that it will exercise that option in the measurement of its ROU assets and liabilities. Lease expense for operating lease is recognized on a straight-line basis over the lease term. We are also electing not to apply the recognition requirements to short-term leases of twelve months or less and instead will recognize lease payments as expense on a straight-line basis over the lease term.

We leased approximately 12,775 square feet of office space in San Diego, California, at a monthly rent of \$25,754, pursuant to a lease that expired in December 2023. On October 19, 2023, we signed a lease for office space consisting of approximately 11,400 square feet, located in San Diego, California, at a monthly rent of \$23,370, which commenced on January 1, 2024. In addition to monthly rent, the lease includes payment for certain common area costs. The term of the lease for the office space is 65 months from the lease commencement date. 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 expenses for this office space were \$83,367 and \$77,263 for the three months ended March 31, 2024 and 2023, and \$ 237,893 and \$231,789 for the nine months ended March 31, 2024 and 2023, respectively.

On or about December 7th, 2023, we received an invoice from our prior landlord, Hunsaker & Associates, requesting payment of additional rent on our completed and expired lease of office space located at 9707 Waples Street, San Diego, CA as of December 31, 2023. This invoice purports to represent charges for variable cost increases during the prior 7 years of the lease. We are currently reviewing these charges and will be requesting further validation of these charges, in accordance with our rights granted under the lease. For the three months ended December 31, 2023, we recorded an additional rent expense reflecting this pending invoice of \$142,978 and a credit of \$ 24,656 for our deposit on the leasehold property.

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, 2023 and were extended by an additional twelve months to August 31, 2024. 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 \$32,100 for the three months ended March 31, 2024 and 2023, and approximately \$ 96,300 for the nine months ended March 31, 2024 and 2023. This facility is also covered by an appropriate level of insurance, and we believe it 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, 2023 and was extended by an additional twelve months to September 4, 2024. Rent expenses related to this lease were \$2,109 and \$2,106 for the three months ended March 31, 2024 and 2023, and \$ 6,134 and \$6,057 for the nine months ended March 31, 2024 and 2023.

We used a discount rate of 4.0% in determining our operating lease liabilities for the office space that expired on December 31, 2023, and used a discount rate of 7.0% for the office space that commenced on January 1, 2024, in San Diego, California, respectively. These rates represented our incremental borrowing rates at that time. Short-term leases with initial terms of twelve months or less are not capitalized, and our leases of the South Korean offices and corporate housing facility have been considered as short-term leases.

Rent expenses for the nine months ended March 31, 2024 and 2023 were \$ 483,305 and \$334,146, respectively. In accordance with ASC 842, the components of the lease expense and supplemental cash flow information related to leases for the nine months ended March 31, 2024, and 2023 are as follows:

| | Nine Months Ended March 31, | |
|---|-----------------------------|-------------------|
| | 2024 | 2023 |
| Operating lease expense | \$ 237,893 | \$ 231,789 |
| Additional charges for the prior operating lease subject to dispute | 142,978 | – |
| Short term lease cost | 102,434 | 102,357 |
| Total lease expense | <u>\$ 483,305</u> | <u>\$ 334,146</u> |

Future minimum payments under operating leases are as follows:

| | Operating Lease |
|-----------------------|---------------------|
| Fiscal 2024 | \$ 89,208 |
| Fiscal 2025 | 336,972 |
| Fiscal 2026 | 344,789 |
| Fiscal 2027 | 352,841 |
| Fiscal 2028 | 387,437 |
| Fiscal 2029 | 363,310 |
| Total lease payments | 1,874,557 |
| Less imputed interest | (314,567) |
| Total | \$ 1,559,990 |

| | |
|---------------------------------------|-----------|
| Remaining lease term-operating leases | 5.2 years |
| Discount rate-operating lease | 7% |

Warranty repairs

The following table sets forth the percentages of return rates and warranty repairs for all products currently marketed, in the aggregate from the date each product was introduced.

| Current Devices | | |
|---------------------|-------------|------------------|
| Device Type | Return Rate | Warranty Repairs |
| 4G Wireless Devices | 0.07% | 0.06% |
| 5G Wireless Devices | 0.52% | 0.16% |

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 was 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 imported the devices and supplied 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 with Verizon arising from the recall and have not been served with any legal action by Verizon 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 Verizon recall was likely and that we did not disclose that information to investors in a timely manner. The Class and Defendants have executed a Stipulation and Agreement of Settlement under which the Class releases all claims against Defendants in exchange for a payment by Defendants of \$2.4 million (the "Settlement Amount"), which is reflected in liabilities under "accrued legal contingency expense" with a corresponding charge to "loss from a legal contingency". The Class has submitted a motion for preliminary approval of the settlement, which the Court denied on January 24th, 2024. On April 22, 2024, after resubmission of the application, the court granted preliminary approval of the settlement. On May 6th, 2024, per the terms of the settlement agreement, we sent by wire transfer \$2,400,000 to an account specified by the Ali class action claim administrator, Epiq (the appointed Settlement Administrator by the Court).

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, by Stephen Harwood, derivatively on behalf of nominal defendant Franklin Wireless Corp. v. O.C. Kim, et al., Case #21cv01837-AJB-MSB, 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. O.C. Kim, et al., Case #21cv2091-AJB-MSB, 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 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 has been completed and we are awaiting rulings on pretrial motions at the reporting date.

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. O.C. 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 the reporting date.

"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-RSH-JLB, on or about July 22, 2021, claiming that our Chief Executive Officer, O.C. 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. On October 19, 2023, the jury returned a verdict for \$2,000,000 in favor of the Company against the Company's Chief Executive Officer, O.C. Kim. Mr. Kim has filed a notice indicating he intends to appeal the verdict.

Loan Agreement with Subsidiary

On March 21, 2022, Franklin Wireless Corp. (the "Company") entered into a Loan Agreement with Franklin Technologies, Inc. a Korean corporation ("FTI"), under which the Company agreed to loan US\$10,000,000 to FTI. The Company owns a majority of the outstanding equity of FTI. FTI's primary business is providing design and development services to the Company for our wireless products. As part of the loan transaction, FTI delivered a \$10 million Promissory Note to the Company (the "Note").

The purpose of the loan is to allow FTI to purchase a facility in South Korea to house its operations, and to provide it with additional working capital. The purchase of such a facility with the loan proceeds is subject to the Company's reasonable approval. Upon acquisition of the facility, FTI is required to grant the Company a mortgage on it to secure payment of the Note.

The Note is for a term of five years, provides for annual payments of interest at 2% per annum, and is due and payable upon maturity. The Note and Loan Agreement include customary provisions for default and acceleration upon default, and a default interest rate of 7% per annum.

Employment Contracts

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 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. These agreements were for an initial term of three years but have now been extended through October 2024.

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.

On November 10, 2022, the Company and OC Kim, its President, entered into an amendment of the existing employment letter agreement dated September 7, 2021. The amendment provides for a severance payment of \$3 million if Mr. Kim voluntarily terminates his employment by the Company or if he voluntarily terminates his employment due to a "change in circumstances," generally defined as a material breach by the Company of its salary and benefit obligations or a significant reduction in Mr. Kim's title or responsibilities. In the case of a termination of employment by the Company for cause (generally defined as conviction of a felony, or a misdemeanor where imprisonment is imposed, commission of any act of theft, fraud, dishonesty, or material falsification of any employment or Company records, or improper disclosure of the Company's confidential or proprietary information), the Company is to make a severance payment of \$1,500,000. In either case, any unvested options become immediately vested.

In the amendment, Mr. Kim also agrees that, for a period of two years after termination, he will not disparage the Company or its officers, solicit

any of its employees to terminate their employment, or disclose any of the Company's proprietary information.

In addition, the amendment provides for the payment of an incentive bonus to Mr. Kim of \$125,000 for each calendar quarter during the remaining four-year term of the employment letter, with the first such bonus due on December 31, 2022. For the three and nine months ended March 31, 2024 and 2023, \$125,000 and \$375,000 bonus had been accrued respectively with \$ 750,000 and \$375,000 accrual bonus balances as of March 31, 2024 and June 30, 2023, respectively.

The Change in Control Agreement with Mr. Kim, dated October 1, 2020, has not been terminated and remains in effect at this time.

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 7 - 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. The fair value of each share option award on the date of grant was estimated using the Black-Scholes method based on the following weighted average assumptions: The risk-free interest rate is based on the U.S. treasury yield curve in effect at the time of grant for periods corresponding with the expected term of options award; the expected term represents awards granted are expected to be outstanding giving considerations vesting schedules and historical participant exercise behavior; the expected volatility is based upon historical volatility of the dividend yield is based upon the company's dividend rate at the time fair value is measure and future expectations. Under this application, we record compensation expense for all awards granted.

In July of 2020, the Board of Directors adopted the 2020 Franklin Wireless Corp. Stock Option Plan (the "2020 Plan"), which covers 800,000 shares of Common Stock. The 2020 Plan provides 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 \$208,860 and \$536,922 compensation expenses recorded under this method for the nine months ended March 31, 2024 and 2023, respectively.

A summary of the status of our stock options is presented below as of March 31, 2024:

| Options | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life (In Years) | Aggregate Intrinsic Value |
|----------------------------------|----------|---------------------------------|--|---------------------------|
| Outstanding as of June 30, 2023 | 647,001 | \$ 4.24 | 2.88 | \$ 130,200 |
| Granted | — | — | — | — |
| Exercised | — | — | — | — |
| Cancelled | — | — | — | — |
| Forfeited or expired | (20,000) | 4.90 | — | — |
| Outstanding as of March 31, 2024 | 627,001 | \$ 4.22 | 2.14 | \$ — |
| Exercisable as of March 31, 2024 | 539,921 | \$ 4.37 | 2.03 | \$ — |

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based upon the Company's closing stock price of \$2.99 per share as of March 31, 2024, which would have been received by the option holders had all option holders exercised their options as of that date. The weighted-average grant-date fair value of stock options outstanding as of March 31, 2024, in the amount of 627,001 shares was \$3.33 per share. As of March 31, 2024, there was unrecognized compensation cost of \$259,182 related to non-vested stock options granted.

A summary of the status of our stock options is presented below as of March 31, 2023:

| Options | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life (In Years) | Aggregate Intrinsic Value |
|---------------------------------|---------|---------------------------------|--|---------------------------|
| Outstanding as of June 30, 2022 | 766,001 | \$ 3.85 | 3.37 | \$ 183,270 |

| | | | | |
|----------------------------------|----------------|---------|------|------------|
| Granted | — | — | — | — |
| Exercised | (100,000) | 1.34 | — | — |
| Cancelled | — | — | — | — |
| Forfeited or expired | (17,000) | 5.40 | — | — |
| Outstanding as of March 31, 2023 | <u>649,001</u> | \$ 4.24 | 3.12 | \$ 595,200 |
| Exercisable as of March 31, 2023 | <u>405,277</u> | \$ 4.63 | 2.85 | \$ 248,724 |

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based upon the Company's closing stock price of \$4.98 as of March 31, 2023, which would have been received by the option holders had all option holders exercised their options as of that date. The weighted-average grant-date fair value of stock options outstanding as of March 31, 2023, in the amount of 649,001 shares was \$3.35 per share. As of March 31, 2023, there was unrecognized compensation cost of \$724,837 related to non-vested stock options granted.

NOTE 8 – RELATED PARTY TRANSACTIONS

For the three and nine months ended March 31, 2024, and 2023, there have not been any transactions entered into or been a participant in which a related person had or will have a direct or indirect material interest.

NOTE 9 - SUBSEQUENT EVENTS

The FASB issued ASC 855, "Subsequent Events." ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company has evaluated all events or transactions that occurred after March 31, 2024, up through the date the financial statements were available to be issued. During these periods, the Company did not have any material recognizable subsequent events required to be disclosed to the financial statements as of March 31, 2024.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and related notes included elsewhere in this report. This report contains certain forward-looking statements relating to future events or our future financial performance. These statements are subject to risks and uncertainties which could cause actual results to differ materially from those discussed in this report. You are cautioned not to place undue reliance on this information, which speaks only as of the date of this report. We are not obligated to publicly update this information, whether as a result of new information, future events or otherwise, except to the extent we are required to do so in connection with our obligation to file reports with the SEC. For a discussion of the important risks to our business and future operating performance, see the discussion under the caption "Item 1A. Risk Factors" and under the caption "Factors That May Influence Future Results of Operations" in the Company's Form 10-K for the year ended June 30, 2023, filed on September 28, 2023. 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 integrated wireless solutions utilizing the latest in 5G (fifth generation) and 4G LTE (fourth generation long-term evolution) technologies including mobile hotspots, routers, fixed wireless routers, and various trackers. Our integrated software subscription services provide users remote capabilities including mobile device management (MDM) and software defined wide area networking (SD-WAN).

We have majority ownership of Franklin Technology Inc. (FTI), a research and development company based in Seoul, South Korea. FTI primarily provides design and development services 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 primarily extends from North America to Asia.

The Company is constantly evaluating opportunities to increase shareholder value, both based on internal initiatives and in response to suggestions from shareholders and others.

FACTORS THAT MAY INFLUENCE FUTURE RESULTS OF OPERATIONS

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

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

There is always a risk of disputes and disagreements with our business partners and suppliers, and the costs associated with enforcing our rights in those matters could negatively impact operating capital and reserves.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of these financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Management evaluates these estimates and assumptions on an ongoing basis. Our estimates and assumptions have been prepared

on the basis of the most current reasonably available information. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates under different assumptions and conditions.

We have several critical accounting policies, which were described in our Annual Report on Form 10-K for the year ended June 30, 2023, that are both important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective, and complex judgments. Typically, the circumstances that make these judgments difficult, subjective, and complex have to do with making estimates about the effect of matters that are inherently uncertain. There were no material changes to our critical accounting policies for the three and nine months ended March 31, 2024.

RESULTS OF OPERATIONS

The following table sets forth, for the three and nine months ended March 31, 2024 and 2023, our statements of comprehensive (loss) income (unaudited) including data expressed as a percentage of sales:

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---------------------------------|--------|--------------------------------|--------|
| | 2024 | 2023 | 2024 | 2023 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of goods sold | 91.6% | 82.7% | 88.4% | 84.2% |
| Gross profit | 8.4% | 17.3% | 11.6% | 15.8% |
| Operating expenses | 33.6% | 21.3% | 26.6% | 24.3% |
| Loss from operations | (25.2%) | (4.0%) | (15.0%) | (8.5%) |
| Other (loss) income, net | (1.1%) | 0.9% | 3.3% | 2.0% |
| Net loss before income taxes | (26.3%) | (3.1%) | (11.7%) | (6.5%) |
| Income tax (benefit) provision | (5.1%) | (4.9%) | (2.4%) | (2.0%) |
| Net (loss) income | (21.2%) | 1.8% | (9.3%) | (4.5%) |
| Less: non-controlling interest in net loss of subsidiary | (2.2%) | (0.3%) | (0.4%) | (0.1%) |
| Net (loss) income attributable to Parent Company stockholders | (19.0%) | 2.1% | (8.9%) | (4.4%) |

THREE MONTHS ENDED MARCH 31, 2024 COMPARED TO THREE MONTHS ENDED MARCH 31, 2023

NET SALES - Net sales decreased by \$5,675,472, or 47.9%, to \$6,176,499 for the three months ended March 31, 2024 from \$11,851,971 for the corresponding period of 2023. For the three months ended March 31, 2024, net sales by geographic regions, consisting of North America and Asia, were \$6,174,327 (100.0% of net sales) and \$2,172 (0.0%), respectively. For the three months ended March 31, 2023, net sales by geographic regions, consisting of North America and Asia, were \$11,720,894 (98.9% of net sales) and \$131,077 (1.1%), respectively.

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Net sales in North America decreased by \$5,546,567, or 47.3%, to \$6,174,327 for the three months ended March 31, 2024 from \$11,720,894 for the corresponding period of 2023. The decrease in net sales in North America was primarily due to the lack of sales to one major carrier (which was the largest customer, approximately 52% of the total sales for the three months ended March 31, 2023), which was offset by the increased sales of approximately \$1.7M to another major carrier customer. Net sales in Asia decreased by \$128,905, or 98.3%, to \$2,172 for the three months ended March 31, 2024 from \$131,077 for the corresponding period of 2023. The decrease in net sales was primarily due to the lack of the demand for one newly launched wireless product from a customer (approximately \$160,000) from FTI.

GROSS PROFIT - Gross profit decreased by \$1,528,061, or 74.7%, to \$517,449 for the three months ended March 31, 2024 from \$2,045,510 for the corresponding period of 2023. The gross profit in terms of net sales percentage was 8.4% for the three months ended March 31, 2024 compared to 17.3% for the corresponding period of 2023. The decrease in gross profit in terms of net sales percentage for the three months ended March 31, 2024, was primarily due to that a significant portion of the total sales, approximately 96%, was derived from a major carrier customer with a competitive selling price and production costs (approximately gross profit in terms of net sales in percentage of 10%), and the amortization expenses associated with the completed capitalized product development costs that are included in the cost of goods sold.

OPERATING EXPENSES - Operating expenses decreased by \$443,488, or 17.6%, to \$2,072,617 for the three months ended March 31, 2024 from \$2,516,105 for the corresponding period of 2023.

Selling, general, and administrative expenses decreased by \$202,286 to \$1,261,147 for the three months ended March 31, 2024, from \$1,463,433 for the corresponding period of 2023. The decrease in operating expenses was primarily due to the decreased compensation expenses related to stock options granted to employees. Research and development expense decreased by \$241,202 to \$811,470 for the three months ended March 31, 2024, from \$1,052,672 for the corresponding period of 2023. The decrease in research and development expense was primarily due to the decreased research and development costs and the related payroll expense of approximately \$125,000 and \$116,000, respectively, which is the mixed result of the timing of research and development activities and the number of active projects and typically vary from period to period.

OTHER INCOME (LOSS), NET - Other income (loss), net decreased by \$171,486, or 165.6%, to \$67,916 for the three months ended March 31, 2024 from \$103,570 for the corresponding period of 2023. The decrease was primarily due to the decreased gain from the forgiven liability of approximately \$190,000 and the increased loss from the unfavorable changes in foreign currency exchange rates of approximately \$167,000, which was partially offset by the increased unrealized gain from an investment account of approximately \$196,000.

NINE MONTHS ENDED MARCH 31, 2024 COMPARED TO NINE MONTHS ENDED MARCH 31, 2023

NET SALES - Net sales decreased by \$4,264,730, or 14.7%, to \$24,679,824 for the nine months ended March 31, 2024 from \$28,944,554 for the corresponding period of 2023. For the nine months ended March 31, 2024, net sales by geographic regions, consisting of North America and Asia, were \$24,583,324 (99.6% of net sales) and \$96,500 (0.4% of net sales), respectively. For the nine months ended March 31, 2023, net sales by geographic regions, consisting of North America and Asia, were \$28,778,479 (99.4% of net sales) and \$166,075 (0.6% of net sales), respectively.

Net sales in North America decreased by \$4,195,155, or 14.6%, to \$24,583,324 for the nine months ended March 31, 2024 from \$28,778,479 for the corresponding period of 2023. The decrease in net sales in North America was primarily due to the decreased demands from our two largest major carrier customers by approximately \$4M for our wireless products compared to the corresponding period of 2023. Net sales in Asia decreased by \$69,575, or 41.9%, to \$96,500 for the nine months ended March 31, 2024 from \$166,075 for the corresponding period of 2023. The decrease in net

sales in Asia was primarily due to the decreased demand by approximately \$98,000 for one newly launched wireless product from a customer by FTI compared to the corresponding period of 2023.

GROSS PROFIT - Gross profit decreased by \$1,717,730, or 37.5%, to \$2,867,684 for the nine months ended March 31, 2024 from \$4,585,414 for the corresponding period of 2023. The gross profit in terms of net sales percentage was 11.6% for the nine months ended March 31, 2024 compared to 15.8% for the corresponding period of 2023. 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 for the nine months ended March 31, 2024, was primarily due to the mixed results of competitive selling prices and the increase in production costs as well as the increased amortization expenses associated with the completed capitalized product development costs that are included in the cost of goods sold compared to the corresponding period of 2023.

OPERATING EXPENSES - Operating expenses decreased by \$474,932, or 6.7%, to \$6,563,310 for the nine months ended March 31, 2024 from \$7,038,242 for the corresponding period of 2023.

Selling, general, and administrative expenses decreased by \$7,004 to \$4,032,031 for the nine months ended March 31, 2024, from \$4,039,035 for the corresponding period of 2023. The decrease in selling, general, and administrative expenses was primarily due to the decreased compensation expenses related to stock options granted to employees of approximately \$320,000, which was offset by the increased operating lease expense and legal fees of approximately \$150,000 and 135,000, respectively. Research and development expense decreased by \$467,928 to \$2,531,279 for the nine months ended March 31, 2024, from \$2,999,207 for the corresponding period of 2023. The decrease in research and development expense was primarily due to the decreased research and development costs and the related payroll expense of approximately \$280,000 and \$188,000, respectively, which is the mixed result of the timing of research and development activities and the number of active projects and typically vary from period to period.

OTHER INCOME, NET - Other income, net increased by \$229,540, or 38.8%, to \$820,465 for the nine months ended March 31, 2024 from \$590,925 for the corresponding period of 2023. The increase was primarily due to the increased interest income of approximately \$280,000 and the increased unrealized gain from an investment account of approximately \$261,000, which was offset by the decreased gain from the forgiven liability of approximately \$190,000 and the loss from the unfavorable changes in foreign currency exchange rates of approximately \$143,000.

LIQUIDITY AND CAPITAL RESOURCES

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

Our principal source of liquidity as of March 31, 2024 consisted of cash and cash equivalents as well as short-term investments of \$31,737,201. We believe we have sufficient available capital to cover our existing operations and obligations through at least one year from the date of the filing of this Form 10-Q. Our long-term future cash requirements will depend on numerous factors, including our revenue base, profit margins, product development activities, market acceptance of our products, future expansion plans and ability to control costs. If we are unable to achieve our current business plan or secure additional funding that may be required, we would need to curtail our operations or take other similar actions outside the ordinary course of business in order to continue to operate as a going concern.

OPERATING ACTIVITIES - Net cash used in operating activities for the nine months ended March 31, 2024 and 2023 was \$6,972,515 and \$6,954,199, respectively.

The \$6,972,515 in net cash used in operating activities for the nine months ended March 31, 2024 was primarily due to the decrease in accounts payable of \$6,668,572 as well as our operating results (net loss of \$2,297,180 adjusted for depreciation, amortization, and other non-cash charges), which was partially offset by a decrease in inventories of \$2,605,602. The \$6,954,199 in net cash used in operating activities for the nine months ended March 31, 2023 was primarily due to the increase in accounts receivable of \$5,895,731 and inventories of \$1,713,431 as well as our operating results (net loss of \$1,298,722 adjusted for depreciation, amortization, and other non-cash charges), which was partially offset by an increase in accounts payable of \$1,214,246.

INVESTING ACTIVITIES - Net cash provided by investing activities for the nine months ended March 31, 2024 was \$1,815,796, and net cash used in investing activities for the nine months ended March 31, 2023 was \$1,731,707.

The \$1,815,796 in net cash provided by investing activities for nine months ended March 31, 2024 was primarily due to the sales of short-term investments of \$1,995,606, which was partially offset by payments for purchase of capitalized product development of \$121,708 and purchase of property and equipment of \$53,017. The \$1,731,707 in net cash used in investing activities for nine months ended March 31, 2023 was primarily due to the payments for purchase of capitalized product development of \$1,601,998 and purchase of short-term investments of \$71,927.

FINANCING ACTIVITIES - Net cash provided by financing activities for the nine months ended March 31, 2024 and 2023 was \$1,045 and \$43,955, respectively.

The \$1,045 in net cash provided by financing activities for the nine months ended March 31, 2024 was due to the increase in loan to an employee of \$1,045. The \$43,955 in net cash provided by financing activities for the nine months ended March 31, 2023 was from cash received from exercise of stock options of \$134,000, which was partially offset by the increase in loan to an employee of \$90,045.

CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

Leases

We leased approximately 12,775 square feet of office space in San Diego, California, at a monthly rent of \$25,754, pursuant to a lease that expired in December 2023. On October 19, 2023, we signed a lease for office space consisting of approximately 11,400 square feet, located in San Diego, California, at a monthly rent of \$23,370, which commenced on January 1, 2024. In addition to monthly rent, the lease includes payment for certain common area costs. The term of the lease for the office space is 65 months from the lease commencement date. 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.

On or about December 7, 2023, we received an invoice from our prior landlord, Hunsaker & Associates, requesting payment of additional rent on our completed and expired lease of office space located at 9707 Waples Street, San Diego, CA as of December 31, 2023. This invoice purports to represent charges for variable cost increases during the prior 7 years of the lease. We are currently reviewing these charges and will be requesting further validation of these charges, in accordance with our rights granted under the lease. For the three months ended December 31, 2023, we recorded an additional rent expense reflecting this pending invoice of \$142,978 and a credit of \$24,656 for our deposit on the leasehold property.

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 will expire on August 31, 2024. 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 will expire on September 4, 2024.

Rent expense for the three months ended March 31, 2024 and 2023 was \$117,486 and \$111,469, respectively. Rent expense for the nine months ended March 31, 2024 and 2023 was \$483,305 and \$334,146, respectively.

Recently Issued Accounting Pronouncements

Refer to NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES in the Consolidated Financial Statements.

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OFF-BALANCE SHEET ARRANGEMENTS

None.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management has evaluated, under the supervision and with the participation of our President and 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 our Acting Chief Financial Officer have concluded that, as of March 31, 2024, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC and (ii) accumulated and communicated to our management, including our principal executive and principal accounting officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 and as a result of adopting Topic 842) during the nine months ended March 31, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We have provided information about legal proceedings in which we are involved in Note 8 of the notes to consolidated financial statements for the three and nine months ended March 31, 2024, contained within this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

Our Annual Report on Form 10-K for the fiscal year ended June 30, 2023, filed with the SEC on September 28, 2023 (the "Annual Report"), includes a detailed discussion of our risk factors under the heading "PART I, ITEM 1A – RISK FACTORS." You should carefully consider the risk factors discussed in our Annual Report, as well as other information in this quarterly report. Any of these risks could cause our business, financial condition, results of operations and future growth prospects to suffer. We are not aware of any material changes from the risk factors previously disclosed.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

During the quarter ended March 31, 2024, no director or officer adopted or terminated any Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement, as each term is defined in Item 408(a) of Regulation S-K.

ITEM 6. EXHIBITS

31.1 [Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
31.2 [Certification of Acting Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
32.1 [Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
32.2 [Certification of Acting Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
101. INS Inline XBRL Instance Document 101.SCH Inline XBRL Taxonomy Extension Schema Document
101. CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
101. DEF Inline XBRL Taxonomy Extension Definition Linkbase Document
101. LAB Inline XBRL Taxonomy Extension Label Linkbase Document
101. PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
104 Cover Page Interactive Data File (formatted in XBRL, and included in exhibit 101)

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
(Principal Executive Officer)

By: /s/ Bill Bauer
Bill Bauer
Acting Chief Financial Officer
(Principal Financial Officer)

Dated: May 15, 2024

Exhibit 31.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, OC Kim, President of Franklin Wireless Corp., certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of Franklin Wireless Corp.;
- 2) Based on my knowledge, this quarterly 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) I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 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 my 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; and
- 5) I have disclosed, based on my 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.

/s/ OC KIM
OC Kim
President
(Principal Executive Officer)
May 15, 2024

Exhibit 31.2

**CERTIFICATION OF ACTING CHIEF FINANCIAL OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Bill Bauer, Acting Chief Financial Officer of Franklin Wireless Corp., certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of Franklin Wireless Corp.;
- 2) Based on my knowledge, this quarterly 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) I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 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 my 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; and
- 5) I have disclosed, based on my 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.

/s/ Bill Bauer
Bill Bauer
Principal Financial Officer
May 15, 2024

Exhibit 32.1

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Franklin Wireless Corp. (the "Company") on Form 10-Q for the nine months ended March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, OC Kim, President 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 to my knowledge:

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

/s/ OC KIM
OC Kim
President
(Principal Executive Officer)
May 15, 2024

A signed copy of this written statement required by section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Franklin Wireless Corp. (the "Company") on Form 10-Q for the nine months ended March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bill Bauer, 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 to my knowledge:

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

/s/ Bill Bauer
Bill Bauer
Principal Financial Officer
May 15, 2024

A signed copy of this written statement required by section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.