FRANKLIN WIRELESS CORP
Form 10-K
September 28, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

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

For fiscal year ended June 30, 2017

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	**95-3733534**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

9707 Waples Street

Suite 150	**92121**
San Diego, California	(Zip code)

(Address of principal executive offices)

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

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

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

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

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

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

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

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x
Emerging growth company o	

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

The aggregate market value of the voting common stock held by non-affiliates of the Registrant, based on the closing price of the Registrant's common stock on December 31, 2016, as reported by the OTCQB, was approximately $16,525,000. For the purpose of this calculation only, shares owned by officers, directors (and their affiliates) and 5% or greater stockholders have been excluded. The Registrant does not have any non-voting stock issued or outstanding.

The Registrant has 10,520,203 shares of common stock outstanding as of September 28, 2017.

FRANKLIN WIRELESS CORP.

INDEX TO ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

		Page
PART I		
Item 1:	Business	**4**
Item 1A:	Risk Factors	**6**
Item 1B:	Unresolved Staff Comments	**8**
Item 2:	Properties	**8**
Item 3:	Legal Proceedings	**8**
Item 4:	Mine Safety Disclosures	**8**
PART II		
Item 5:	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	**9**
Item 6:	Selected Financial Data	**9**
Item 7:	Management's Discussion and Analysis of Financial Condition and Results of Operations	**10**
Item 7A:	Quantitative and Qualitative Disclosures About Market Risk	**14**
Item 8:	Financial Statements and Supplementary Data	**14**
Item 9:	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	**14**
Item 9A:	Controls and Procedures	**14**
Item 9B:	Other Information	**15**
PART III		
Item 10:	Directors, Executive Officers and Corporate Governance	**15**
Item 11:	Executive Compensation	**17**
Item 12:	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	**19**
Item 13:	Certain Relationships and Related Transactions, and Director Independence	**20**
Item 14:	Principal Accounting Fees and Services	**20**
PART IV		
Item 15:	Exhibits, Financial Statement Schedules	**20**

Signatures	**22**
Index to Financial Statements	**F-1**

NOTE ON FORWARD LOOKING STATEMENTS

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

- the terms "we," "us," "our," “Franklin,” “Franklin Wireless,” or the "Company" refer to Franklin Wireless Corp.
- our fiscal year ends on June 30; references to fiscal 2017 and fiscal 2016 and similar constructions refer to the fiscal year ended on June 30 of the applicable year.

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

PART I

ITEM 1. BUSINESS.

BUSINESS OVERVIEW

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

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

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

OUR STRUCTURE

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

The consolidated financial statements include the accounts of the Company and a subsidiary with a majority voting interest of 51.8% (48.2% is owned by non-controlling interests) as of June 30, 2017 and 2016. 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 subsidiaries applicable to non-controlling interests.

Accounting Standards Codification ("ASC") 280, "Segment Reporting," requires public companies to report financial and descriptive information about their reportable operating segments. We identify our operating segments based on how our chief operating decision maker internally evaluates separate financial information, business activities and management responsibility. We have one reportable segment, consisting of the sale of wireless access products. We generate revenues from four geographic areas, consisting of the United States, the Caribbean and South America, EMEA and Asia. The following enterprise-wide disclosure is prepared on a basis consistent with the preparation of the consolidated financial statements. The following table contains certain financial information by geographic area:

	Fiscal Year Ended June 30,	
Net sales:	2017	2016
United States	$47,373,463	$51,741,991
Caribbean and South America	252,000	100,699
Europe, the Middle East and Africa ("EMEA")	796,795	7,906,900
Asia	143,266	55,104
Totals	$48,565,524	$59,804,694

Long-lived assets, net (property and equipment and intangible assets):	June 30, 2017		June 30, 2016	
United States	$	1,209,050	$	1,113,746
Asia		120,367		330,905
Totals	$	1,329,417	$	1,444,651

4

OUR PRODUCTS

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

The following are representative selections of our current wireless data products:

Mobile Broadband Products:

Routers:

- Mobile hotspots: Single-mode and dual-mode (3G and 4G) portable Wi-Fi routers that provide wireless Internet access for multiple devices simultaneously including laptops, tablets and portable gaming devices.

USB Modems:

- USB modems: Single-mode and dual-mode modems that plug into the Universal Serial Bus (USB) port of laptop or desktop computers, providing an easy and convenient way for users to connect to wireless broadband networks.

Connected Devices and IoT Solutions:

IoT Gateway Devices:

- Wireless modems and gateway devices deliver reliable always-on connectivity supporting a broad spectrum of M2M and IoT applications. Featuring industrial grade ruggedized housings, these versatile and compact modems and routers provide 3G and 4G connectivity and include Wi-Fi and GPS functionality and support IoT cloud management.

Embedded Modules:

- Include single-mode and dual-mode modules that provide network connectivity for a wide-variety of products like vending machines, cargo containers, utility meters and video cameras. The primary market for these devices is original equipment manufacturers (OEMs) who seek reliable embedded module solutions for their wireless data needs.

Bus Information System:

- Represents a full end-to-end IoT solution and includes both hardware and software engineered by the Company. This innovative system features Franklin’s intelligent gateway that supports GPS, Wi-Fi, OBDII, CCTV and black box integration and includes a fully functional information system.

CUSTOMERS

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

SALES AND MARKETING

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

All of our wireless devices must pass Federal Communications Commission (FCC) testing in order to be sold in United States markets. CDMA Development Group (“CDG”) test certifications are required in order to launch any CDMA wireless data products with wireless operators in North America, the Caribbean and South America. PCS Type Certification Review Board (“PTCRB”) test certifications are required for all LTE and HSPA/GSM wireless data products. Other LTE test certifications, as defined by the 3GPP governing body, are required for LTE wireless data products. Certifications are issued as being a qualifier of CDG 1, CDG 2 and CDG 3, PTCRB and 3GPP.

PRODUCTION AND MANUFACTURING OPERATIONS

For the fiscal year ended June 30, 2017, the manufacturing of the majority of our products was contracted out to one company located in Asia.

EMPLOYEES

As of June 30, 2017, we had 76 employees. We also use the services of consultants and contract workers from time to time. Our employees are not represented by any collective bargaining organization, and we have never experienced a work stoppage.

ITEM 1A: RISK FACTORS.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

THE LOSS OF ANY OF OUR MATERIAL CUSTOMERS COULD ADVERSELY AFFECT OUR REVENUES AND PROFITABILITY, AND THEREFORE SHAREHOLDER VALUE. We depend on a small number of customers for a significant portion of our revenues. For the year ended June 30, 2017, net revenues from our two largest customers represented 69% and 23% of our consolidated net sales, respectively. We have a written agreement with each of these customers that governs the sale of products to them, but the agreements do not obligate them to purchase any quantity of products from us. If these customers were to reduce their business with us, our revenues and profitability could materially decline.

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease approximately 12,775 square feet of office space in San Diego, California, at a monthly rent of $23,115, pursuant to a lease that expires in October 2019. In addition to monthly rent, the new lease includes payment for certain common area costs. Our facility is covered by an appropriate level of insurance and we believe it to be suitable for our use and adequate for our present needs. Rent expense for these offices was $277,377 and $269,768 for the years ended June 30, 2017 and 2016, respectively.

Our Korea-based subsidiary, FTI, leases approximately 10,000 square feet of office space in Seoul, Korea, at a monthly rent of approximately $8,000. The lease expired on September 1, 2017 and was extended to September 1, 2019. FTI leases additional office space consisting of approximately 2,682 square feet, also located in Seoul, Korea, at a monthly rent of approximately $2,700, under a lease that expired on September 1, 2017 and was extended to September 1, 2019. In addition to monthly rent, the lease provides for periodic cost of living increases in the base rent and payment for certain common area costs. These facilities are covered by an appropriate level of insurance and we believe them to be suitable for our use and adequate for our present needs. Rent expense related to these leases was approximately $128,000 for the years ended June 30, 2017 and 2016.

We lease one corporate housing facility primarily for our employees who travel, under a non-cancelable operating lease that expired September 5, 2017 and was extended to September 4, 2018. Rent expense related to this lease was $9,457 and $9,724 for the years ended June 30, 2017 and 2016, respectively.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

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

MARKET PRICE OF OUR COMMON STOCK

Shares of our Common Stock are quoted and traded on the OTCQB under the trading symbol "FKWL." The following table sets forth the range of high and low bid quotations per share for the Common Stock as reported during the years ended June 30, 2017 and 2016. The bid price reflects inter-dealer prices and does not include retail mark-up, markdown or commissions.

	High	Low
Year Ended June 30, 2017		
First Quarter	$2.50	$2.23
Second Quarter	$2.92	$2.25
Third Quarter	$3.00	$2.25
Fourth Quarter	$2.28	$1.95
Year Ended June 30, 2016		
First Quarter	$1.80	$1.35
Second Quarter	$2.20	$1.55
Third Quarter	$2.58	$2.03
Fourth Quarter	$2.55	$2.23

We have one class of common stock. As of June 30, 2017, we had 732 shareholders of record. Since many of the shares of our common stock are held by brokers and other institutions on behalf of shareholders, the total number of beneficial holders represented by these record holders is not practicably determinable.

DIVIDENDS

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

EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes share and exercise price information about our equity compensation plans as of June 30, 2017:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	399,000	$ 1.12	1,140,000
Equity compensation plans not approved by security holders	–	N/A	–
Total	399,000	$ 1.12	1,140,000

ITEM 6. SELECTED FINANCIAL DATA

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

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

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

BUSINESS OVERVIEW

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

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

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

FACTORS THAT MAY INFLUENCE FUTURE RESULTS OF OPERATIONS

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

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

CRITICAL ACCOUNTING POLICIES

Revenue Recognition

We recognize revenue in accordance with Accounting Standards Codification ("ASC") 605, "Revenue Recognition," when persuasive evidence of an arrangement exists, the price is fixed or determinable, collection is reasonably assured and delivery of products has occurred or services have been rendered. Accordingly, we recognize revenues from product sales upon shipment of the products to the customers or when the products are received by the customers in accordance with shipping or delivery terms. We provide a warranty for one year from the shipment or delivery date, which is covered by our vendors pursuant to purchase agreements. Any net warranty related expenditures made by us have not historically been material. Under our sales return policy, customers may generally return products that are under warranty for repair or replacement.

Capitalized Product Development Costs

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

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

As of June 30, 2017, and June 30, 2016, capitalized product development costs in progress were $360,248 and $157,492, respectively, and these amounts are included in intangible assets in our consolidated balance sheets. During the year ended June 30, 2017, we incurred $368,226 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.

Income Taxes

Deferred income tax assets and liabilities are recorded for differences between the financial statement and tax basis of the assets and liabilities that will result in taxable or deductible amounts in the future based on enacted laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. As of June 30, 2017, we have federal net operating loss carryforwards of approximately $2.6 million, which expires through 2034 and state net operating loss carryforwards of $0. The utilization of net operating loss carryforwards may be subject to limitations under the provisions of Internal Revenue Code Section 382 and similar state provisions.

Under the provision of ASC 740 “Application of the Uncertain Tax Position Provisions” related to accounting for uncertain tax positions, which prescribes a recognition threshold and measurement process for recording in the financial statements, uncertain tax positions taken or expected to be taken in a tax return, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. Tax benefits of an uncertain tax position will not be recognized if it has less than a 50% likelihood of being sustained based on technical merits.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

RESULTS OF OPERATIONS

The following table sets forth, for the years ended June 30, 2017 and 2016, our statements of operations including data expressed as a percentage of sales:

	2017	2016
	(as a percentage of sales)	
Net sales	100.0%	100.0%
Cost of goods sold	81.0%	83.4%
Gross profit	19.0%	16.6%
Operating expenses	17.2%	13.1%
Income from operations	1.8%	3.5%
Other income, net	0.6%	0.2%
Net income before income taxes	2.4%	3.7%
Income tax provision	0.8%	0.1%
Net income	1.6%	3.6%
Non-controlling interest in net loss (income) of subsidiary	0.2%	(0.9%)
Net income attributable to Parent Company stockholders	1.8%	2.7%

11

YEAR ENDED JUNE 30, 2017 COMPARED TO YEAR ENDED JUNE 30, 2016

NET SALES - Net sales decreased by $11,239,170, or 18.8%, to $48,565,524 for the year ended June 30, 2017 from $59,804,694 for the corresponding period of 2016. For the year ended June 30, 2017, net sales by geographic regions, consisting of the United States, South America and the Caribbean, EMEA (Europe, the Middle East and Africa) and Asia were $47,373,463 (97.5% of net sales), $252,000 (0.5% of net sales), $796,795 (1.7% of net sales) and $143,266 (0.3% of net sales), respectively.

Net sales in the United States decreased by $4,368,528, or 8.4%, to $47,373,463 for the year ended June 30, 2017, from $51,741,991 for the corresponding period of 2016. The decrease in net sales was primarily due to timing of orders placed by a carrier customer, which was partially offset by the launch of a new product with a different carrier customer that took place in the second half of fiscal 2016. Net sales in the South American and Caribbean regions increased by $151,301, or 150.3%, to $252,000 for the year ended June 30, 2016, from $100,699 for the corresponding period of 2016. The increase was primarily due to the general nature of sales in these regions, which often fluctuate significantly from period to period due to timing of orders placed by a relatively small number of customers. Net sales in EMEA decreased by $7,110,105, or 89.9%, to $796,795 for the year ended June 30, 2017, from $7,906,900 for the corresponding period of 2016. The decrease in net sales was due to timing of orders placed by a carrier customer in Africa. Net sales in Asia increased by $88,162, or 160.0%, to $143,266 for the year ended June 30, 2017, from $55,104 for the corresponding period of 2016. The increase in net sales was primarily due to higher product and component sales generated by FTI, which typically vary from period to period.

GROSS PROFIT- Gross profit decreased by $706,721, or 7.1%, to $9,218,459 for the year ended June 30, 2017, from $9,925,180 for the corresponding period of 2016. The gross profit in terms of net sales percentage was 19.0% for the year ended June 30, 2017, compared to 16.6% for the corresponding period of 2016. The decrease in gross profit was primarily due to the change in net sales as described above. The increase in gross profit in terms of net sales percentage was primarily due to variations in customer and product mix, competitive selling prices and product costs which generally vary from period to period and region to region.

OPERATING EXPENSES - Operating expenses increased by $537,859, or 6.9%, to $8,344,080 for the year ended June 30, 2017, from $7,806,221 for the corresponding period of 2016. The increase was primarily due to highe