FRANKLIN TELECOMMUNICATIONS CORP
Form 10-Q
May 20, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2002

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

Commission file number 0-11616

FRANKLIN TELECOMMUNICATIONS CORP.
(Exact Name of Registrant as Specified in its Charter)

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

733 Lakefield Road, Westlake Village, California 91361
(Address of Principal Executive Offices) (Zip Code)
Registrant's Telephone Number, Including Area Code: (805) 373-8688

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

Title of each class	Name of each exchange
Common stock, without par value	American Stock Exchange

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

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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 the number of shares outstanding of each of the issuer's class of common stock, as of the latest practicable date:

TITLE OF EACH CLASS OF COMMON STOCK	OUTSTANDING AT MAY 15, 2002
Common Stock, no par value	43,809,231

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Franklin Telecommunications Corp.

Item 1. Financial Statements

FRANKLIN TELECOMMUNICATIONS CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2002 (UNAUDITED) AND JUNE 30, 2001

	MARCH 31, 2002 (UNAUDITED)
ASSETS	
Current assets	
Cash and cash equivalents	$ 34,000
Accounts receivable, less allowance for doubtful accounts $5,000	46,000
Other receivables	1,000
Note receivable (a portion due from a related party)	-0-
Inventories (Note 2)	235,000
Prepaid expenses	0

Total current assets	316,000
Property and equipment	
Machinery and equipment	278,000
Furniture and fixtures	59,000
Computers and software	166,000
	503,000
Less accumulated depreciation	64,000
Total property and equipment	439,000
Licenses	163,000
Other assets	44,000
Total assets	$ 962,000

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities	
Current portion of capital lease obligations	$ 28,000
Convertible promissory note (due to a related party) (Note 4)	398,000
Accounts payable	1,714,000
Accrued liabilities (Note 3)	1,436,000
Total current liabilities	3,576,000
Long-term debt, (majority due to a related party)	688,000
Capital lease obligations, net of current portion	-0-
Total liabilities	4,264000
Contingencies (Note 5)	
Shareholders' equity	
Preferred stock, no par value 10,000,000 shares authorized, Convertible Series C -0- (unaudited) and -0- shares issued and outstanding	-0-
Common stock, no par value 90,000,000 shares authorized 43,809,231 (unaudited) and 43,710,231 shares issued and outstanding	$ 35,907,000
Common stock committed, no par value 74,716 (unaudited) and 74,716 shares committed but not yet issued	182,000
Accumulated deficit	(39,391,000)
Total shareholders' deficit	($ 3,302,000)
Total liabilities and shareholders' deficit	$ 962,000

The accompanying notes are an integral part of these financial statements.

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FRANKLIN TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS AND NINE MONTHS ENDED MARCH 31, 2001 AND 2000 (UNAUDITED)

	THREE MONTHS ENDED MARCH 31,		
	2002	2001	2
	(UNAUDITED)	(UNAUDITED)	(UNA
Sales			
Product	$ 0	$ 66,000	1
Telephone and Internet services	108,000	126,000	1
Total sales	108,000	192,000	3
Cost of sales			
Product	0	1,064,000	
Telephone and Internet services	68,000	230,000	3
Total cost of sales	68,000	1,294,000	4
Gross profit (loss)	40,000	(1,102,000)	(1
Operating expenses			
Research and development expenses	0	245,000	
Impairment of long-lived assets	0	444,000	
Selling, general, and administrative Expenses	303,000	605,000	10
Total operating expenses	303,000	1,294,000	10
Loss from operations	(263,000)	(2,396,000)	(1,1
Other income (expense)			
Interest income	---	---	
Interest expense	7,000	---	
Gain (loss) on disposal of property and equipment	---	---	
Other income (expense)	0	9,000	
Total other income (expense)	(7,000)	9,000	(
Net loss	$ (270,000)	$ (2,387,000)	$ (1,1
Basic and diluted loss per common share	$ (.01)	$ (.06)	$
Weighted average common shares outstanding used to compute basic and diluted loss per common share	43,809,232	42,456,352	43,7

The accompanying notes are an integral part of these financial statements.

FRANKLIN TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED MARCH 31, 2002 AND 2001 (UNAUDITED)

	NINE MONTHS ENDED MARCH 31, 2002 (UNAUDITED)	NINE MONTHS ENDED MARCH 31, 2001 (UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	($1,125,000)	$(6,016,000)
Adjustments to reconcile net loss to net cash Used in operating activities		
Depreciation and amortization	378,000	565,000
Provision for loss on obsolete inventory	-	1,133,000
Provision for loss on doubtful accounts	-	38,000
Stock issued for services rendered	-	325,000
(Gain) loss on disposal of property and equip	(3,000)	(3,000)
Loss on impairment of long-lived assets	-	444,000
(Increase) decrease in		
Accounts receivable	(25,000)	20,000
Other receivables	-	(36,000)
Inventories	90,000	293,000
Prepaid expenses	15,000	(18,000)
Increase (decrease) in		
Accounts payable	160,000	(202,000)
Accrued liabilities	59,000	(103,000)
Net cash used in operating activities	(451,000)	(3,560,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	-	(78,000)
Sale of assets	3,000	-
Net cash used in investing activities	3,000	(78,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from convertible notes payable	376,000	100,000
Proceeds from exercise of stock options and warrants	-	4,000
Proceeds from sale of common stock	57,000	2,485,000
Payments on capital lease obligations	-	(26,000)
Net cash provided by financing activities	433,000	2,563,000
Net increase (decrease) in cash and equivalents	(15,000)	(1,075,000)
Cash and cash equivalents, beginning of the period	49,000	1,275,000
Cash and cash equivalents, end of the period	$ 34,000	$ 200,000

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	2002	2001
Interest paid	$ -0-	$ 2,000

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES.

Subsequent to the nine months ended March 31, 2002, the Company issued 850,000 shares (unaudited) of common stock for services valued at $45,000 (unaudited) and 333,000 shares for services valued at $17,000 - both for legal fees.

The accompanying notes are an integral part of these financial statements.

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FRANKLIN TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

NOTE 1--GENERAL AND SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

BUSINESS AND ORGANIZATION

Franklin Telecommunications Corp. ("Franklin") and its subsidiaries (collectively the "Company") manufacture and distribute data and telephony communications, access and connectivity products for IP Telephony networks, T-1 and X.25 wide-area networks and provide IP Telephony and Internet services through its majority-owned subsidiary, FNet Corp. ("FNet") See Note 5. The Company's customers are located predominantly in the United States, Canada, Australia, South America and parts of Europe in a wide range of industries including financial services, government, telephone services and manufacturing.

BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all normal, recurring adjustments considered necessary for a fair presentation have been included. The financial statements should be read in conjunction with the audited financial statements included in the Company's annual report on Form 10-K for the fiscal year ended June 30, 2001. The results of operations for the nine months ended March 31, 2002 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2002. On April 5, 2002 FNet voluntarily filed a petition under Chapter 11 of the U.S. Bankruptcy Code in order to reorganize its operations and financial structure.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of Franklin Telecommunications Corp. and its wholly owned or majority owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future net cash flows expected to be generated by the assets. If the assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. During the nine months ended March 31, 2001, the Company recognized $104,000 (unaudited) as an impairment loss related to licenses which the Company is no longer using and $340,000 (unaudited) as an impairment loss related to FNet discontinuing its satellite telephone network in the Balkan region.

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LOSS PER COMMON SHARE

The Company calculates loss per common share in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share." Basic loss per share is computed by dividing the loss available to common shareholders by the weighted-average number of common shares outstanding. Diluted loss per share is computed similar to basic loss per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. The following potential common shares have been excluded from the computation of diluted net loss per share for all periods presented because the effect would have been anti-dilutive:

	For the Nine M March
	2002
	(unaudited)
Options outstanding under the Company's stock option plans	1,880,250
Options granted outside the Company's stock option plans	5,997,500
Convertible notes payable	398,000
Warrants issued in conjunction with convertible notes payable	2,000,000
Warrants issued in conjunction with various private placements	200,000
Warrants issued as offering costs for convertible notes payable	-0-

INCOME TAXES

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

NOTE 2--INVENTORIES

Inventories consisted of the following:

	MARCH 31, 2002	JUNE 30, 2001
	(UNAUDITED)	
Raw materials...........	-0-	$ 1,360,000
Work in process.......	-0-	201,000
Finished goods...........	235,000	1,141,000
Reserve for Obsolescence	-0-	(2,377,000)
Total..........	235,000	$ 325,000

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NOTE 3--ACCRUED LIABILITIES

Accrued liabilities consisted of the following:

	MARCH 31, 2002	JUNE 30, 2001
	(UNAUDITED)	
Salaries and related expense	$ 1,083,000	$ 1,025,000
Leases	165,000	165,000
Other accrued liabilities	190,000	189,000
Total..........	$ 1,438,000	$ 1,379,000

NOTE 4--CONVERTIBLE PROMISSORY NOTE

During the nine months ended March 31, 2002, the Company issued four convertible promissory notes to the Company's Executive Chairman. Each note is convertible into the Company's Common Stock. Each note bears interest at 6% per annum.

The first note is for $19,000, and is due on July 10, 2002. The conversion price is $0.05 per share, which was the fair market value of the Company's common stock at the date of issuance.

The second note is for $50,000 and is due on November 7, 2002. The conversion price is $0.05 per share, which was the fair market value of the Company's common stock at the date of issuance

The third note is for $127,000 is due on January 17, 2003. The conversion price is $0.04 per share, which was the fair market value of the Company's common stock at the date of issuance.

The fourth note is for $40,000, and is due on February 25, 2003. The conversion price is $0.04 per share, which was the fair market value of the Company's common stock at the date of issuance. In addition, the payee will receive a Warrant to purchase 1,000,000 shares of Common Stock of the Company exercisable until July 15, 2003 at the price of $.04, subject to adjustment as provided below: if the 10 day average price of the Company's Common Stock (between April 15, 2002 and the close of business on April 25, 2002) is below $.25 per share, the exercise price will be $.01.

During the nine months ended March 31, 2002, the Company issued a convertible promissory note of $40,000 to a director of the Company, which is convertible into the Company's common stock. Interest at 6% per annum and principal are due on February 25, 2003. If the note holder elects to convert the debt into common stock, the conversion price for each share will equal $0.04 per share, which was the fair market value of the Company's common stock at the date of issuance. In addition, the Payee will receive a Warrant to purchase 1,000,000 shares of Common Stock, exercisable until July 15, 2003 at the price of $.04, subject to adjustment as provided below: if the 10 day average price of the Company's Common Stock (between April 15, 2002 and the close of business on April 25, 2002) is below $.25 per share, the exercise price will be $.01

NOTE 5--COMMITMENTS AND CONTINGENCIES

Company Subsidiary FNet Corp. filed chapter 11.

On April 5th, 2002 FNet voluntarily filed a petition under Chapter 11 of the U.S. Bankruptcy Code in order to reorganize its operations and financial structure. Chapter 11 status enables FNet to continue to offer and provide broadband and Internet services to its customers without interruption while reorganizing its debt and capital structure under court supervision. This action was taken due to several carrier's continued invoicing for canceled circuits for a period of over 14 months. Efforts to reconcile this matter with 5 carriers failed with 4 of them. One of these efforts was successful resulting in a $586,000 reduction.

We believe the balance of about $1,714,000, of which $1,100,000 is detailed below will also be settled to a near zero balance. Of this $1,714,000 in trade payables most is for FNet which we expect will reduce these payables to a much lower level, either from reconciling the payables with the various vendors or through the Chapter 11 proceedings.
The Company owns about 65% of FNet.

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Service Agreement - FNet (Largest single dispute).

During the nine months ended March 31, 2001, FNet Corp. entered into a five-year service agreement with a satellite service provider to operate uplink and downlink earth stations between the United States and the Balkan region. The estimated fee for the project is $1,236,000. As of March 31, 2001, the Company had violated certain terms and conditions of the service agreement. As such the agreement was canceled but calls for immediate payment of the remaining fee for the project of approximately $1,100,000 million. FNet is currently in negotiations to settle with the service provider for this and other payables within the guidelines of the Chapter 11 reorganization.

Litigation

The Company is not currently as of May 15, 2002 involved in any legal proceedings except the subsidiary Chapter 11 filing.

In November 2001, NEC filed a lawsuit against the Company alleging breach of contract for $43,000 plus fees still due on a lease for a PBX. This action was settled in April, 2002 for $20,000.

In November 2001, two former employees filed a claim with the California labor board, claiming certain vacation and overtime was not paid to them. In January 2002, the labor board issued a judgment in the amount of $79,115.. The Company, on appeal settled the case in April 2002 for $53,000. The company's legal fees of $17,000 were paid for with 333,000 shares of FTC Stock.

NOTE 6--RECENT SALE OF EQUITY SECURITIES

During the three months ended March 31, 2002, the Company did not complete any significant common stock transactions of previously unissued common shares. However, in April 2002 the company issued 850,000 shares of common stock for services valued at $42,500. In addition, the company issued 333,000 shares of common stock for services valued at $17,000, both for legal fees.

During the nine months ended March 31, 2002, (on September 14, 2001) the Company issued 32,000 units at the price of $1.00 per unit to purchase Common Stock. Each Unit consists of: a) Twenty shares of the Common Stock of Franklin Telecommunications Corp., and b) a Warrant to purchase ten shares of Common Stock at the price of $.001 exercisable after March 25, 2002 if the 10 day average price of FCM is below $.25 per share.

During the nine months ended March 31, 2002, (on October 4, 2001) the Company issued of 10,000, units at the price of $1.00 per unit purchase Common Stock. Each Unit consists of: a) Twenty shares of the Common Stock of Franklin Telecommunications Corp., and b) a Warrant to purchase ten shares of Common Stock at the price of $.001 exercisable after March 25, 2002 if the 10 day average price of FCM is below $.25 per share.

During the nine months ended March 31, 2002, (on October 10, 2001) the Company issued of 5,000, units at the price of $1.00 per unit purchase Common Stock. Each Unit consists of: a) Twenty shares of the Common Stock of Franklin Telecommunications Corp., and b) a Warrant to purchase ten shares of Common Stock at the price of $.001 exercisable after March 25, 2002 if the 10 day average price of FCM is below $.25 per share.

During the nine months ended March 31, 2002, (on November 15, 2001) the Company issued of 10,000, units at the price of $1.00 per unit purchase Common Stock. Each Unit consists of: a) Twenty shares of the Common Stock of Franklin Telecommunications Corp., and b) a Warrant to purchase ten shares of Common Stock at the price of $.001 exercisable after March 25, 2002 if the 10 day average price of FCM is below $.25 per share.

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

OVERVIEW

Franklin Telecommunications Corp. ("Company") designs, manufactures and sells Internet Telephony equipment, also called Voice over Internet Protocol equipment ("VoIP") and other high speed communications products and subsystems. Our products are marketed through Original Equipment Manufacturers ("OEMs") and distributors, as well as directly to end users. In addition, through our majority-owned subsidiary, FNet Corp. ("FNet"), we provide traditional switched network and Internet Protocol telephony services, and Internet access to businesses and individuals. The Company's customers are located throughout the world in a wide range of industries including financial services, government, telephone services and manufacturing.

The Company offers a suite of Internet Telephony solutions that enable business communications over data networks. From the small office home office (SOHO) to the branch office and headquarters operations of medium to large scale corporations, the Company offers a cost-effective call handling solution. From the enterprise to the carrier market, the Company offers converged network solutions; managing the connectivity and integration of voice, data, fax and video. Where ever possible, the Company offers a turnkey solution that can be "owned" by its customers. When equipment sales are not in the best interest of a particular customer's business communications solution, the Company plans to provide that solution as a "service" that can be leased. The Company aims to be a leading edge supplier of Internet Telephony solutions as a result of its flexibility in providing on net and off net business communication solutions as customer owned equipment or Franklin provided services on a global basis. The Company's products and services enable connectivity and e-commerce.

The Company is both an equipment supplier and a service provider, offering turn-key business communications solutions to both the carrier and enterprise segments of the Internet Telephony market. The Company produces gateways, gatekeepers and edge servers that provide advanced packet switching solutions that significantly reduce the infrastructure costs associated with communications networks. The Company's products are designed, developed and manufactured by the Company.

In addition to manufactured solutions, the Company maintains a Network Operations Center that provides both "on -net" and "off-net" connectivity for the Company's equipment customers. The Network Operations Center could interconnect the Company's customers on a global basis. The Network Operations Center includes Internet access facilities and a Class 4 circuit switch although it is not in use at this time. The center could interconnect with three International Record Carriers and is capable of completing a voice call to any phone in the world. The Company plans to offer its equipment and services to customers who own Cisco VoIP gateways for the purpose of billing and control management.

On April 5th, 2002 FNet, a subsidiary of the Company voluntarily filed a petition under Chapter 11 of the U.S. Bankruptcy Code in order to reorganize its operations and financial structure. Chapter 11 status enables FNet to continue to offer and provide broadband and Internet services to its customers without interruption while reorganizing its debt and capital structure under court supervision. This action was taken due to the fact that several carriers continued invoicing for canceled circuits for a period of over 14 months. Efforts to reconcile these disputed amounts with 5 carriers failed with 4 of them. One of these efforts was successful due the the efforts of our auditors pressing the carrier for a written acknowledgement of the debt, which was reconciled from $586,000 to $0. Of the $1,750,000 in trade payables for FNet we expect the result will resolve these amounts to a much lower level, either from reconciling the payables with the various vendors or through the Chapter 11 proceedings. The Company owns about 65% of Fnet.

The Company plans to restructure its finances and a seek merger or other business combination with a company in the same general business with a good customer base and sales capability, which could lead to greatly increased revenue by taking advantage of the rich product and technology assets in Franklin.

Forward-looking statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations, including statements regarding the Company's entrance into the Telephone and Internet business, newly introduced products, development of "VoIP" service capabilities over the Internet, net sales, gross profit, operating expenses, other income and expenses, liquidity and cash needs and the Company's plans and strategies are all based on current expectations, and the Company assumes no obligation to update this information. Numerous factors could cause actual results to differ from those described in the forward-looking statements.

As with any line of business, there can be no assurance that the VOIP products will gain widespread market acceptance or be profitable. In addition, there can be no assurance that new hardware products and services developed by others will not render the Company's hardware products and services noncompetitive or obsolete.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2002 COMPARED TO THREE MONTHS ENDED MARCH 31, 2001

NET SALES. Net sales decreased by $84,000, or 43%, from $192,000 in the three months ended March 31, 2001 to $108,000 in the three months ended March 31, 2002. The decrease is due both to a reduction of DVG hardware systems sales and reduced service revenue. The revenue for the three months ended March 31, 2002 consisted of 100% Telephone and Internet services revenue.

GROSS PROFIT. The Company generated a gross profit of $40,000 for the quarter ended March 31, 2002, compared to a gross loss of $1,102,000 for the corresponding period of 2001. The improvement relates to the costs written off in 2001 as well as the reduced costs of operating the internet system.

OPERATING EXPENSES. Operating expenses decreased by $991,000, or 76%, from $1,294,000 in the three months ended March 31, 2001 to $303,000 in the three months ended March 31, 2002. The decrease was primarily attributable to a reduced number of employees.

OTHER INCOME (EXPENSE). Interest income was zero in the three months ended March 31, 2001 and also zero in the three months ended March 31, 2002, due to reduced cash balances available to earn interest. Interest expense increased by $7,000, from $0 in the three months ended March 31, 2001 to $7,000 in the three months ended March 31, 2002. Other components of other income (expense) were immaterial and were due to various non operating items.

NINE MONTHS ENDED MARCH 31, 2002 COMPARED TO NINE MONTHS ENDED MARCH 31, 2001

NET SALES. Net sales decreased by $776,000, or 70%, from $1,104,000 in the nine months ended March 31, 2001 to $328,000 in the nine months ended March 31, 2002. The decrease is due to a reduction of DVG hardware systems sales. The revenue mix for the nine months ended March 31, 2002 consisted of 60% Telephone and Internet services revenue and 40% hardware product sales.

GROSS LOSS. The Company recorded a gross loss of $100,000 more than a 90% decline from the loss on sales of $1,476,000 incurred in the nine months ended March 31, 2001. The loss in the prior year was higher due to the write off of almost $1,000,000 in inventory and the higher costs of operation of the internet system.

OPERATING EXPENSES. Operating expenses decreased by $3,542,000, or 78%, from $4,549,000 in the nine months ended March 31, 2001 to $1,007,000 in the nine months ended March 31, 2002. The primary reason for the decrease was due to a severe reduction in staff and facilities during the nine months ended March 31, 2002.

OTHER INCOME (EXPENSE). Interest income decreased by $15,000 from $15,000 in the nine months ended March 31, 2001 to -0- in the nine months ended March 31, 2002, due to reduced cash balances available to earn interest. Interest expense increased by $6,000 from ($3,000) in the nine months ended March 31, 2001 to $3,000 in the nine months ended March 31, 2002, due primarily to interest rates. Other components of other income (expense) were immaterial and were due to various non operating items.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents at March 31, 2002 were $34,000 and the working capital deficit was over $3,000,000. The FNet segment of the Company has declared bankruptcy in April 2002 and management is hopeful that the restructuring will reduce the working capital deficit significantly. The Company will need to obtain outside financing in order to continue its operations. The Company has been able to borrow from officers and a shareholder to keep the employees and the facility working at a minimum level of cash outlay. However, management believes the Company will need additional outside financing to achieve its short and mid-term capital requirements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk generally represents the risk that losses may occur in the values of financial instruments as a result of movements in interest rates, foreign currency exchange rates and commodity prices. The Company is exposed to changes in financial market conditions in the normal course of its business due to its use of certain financial instruments as well as transacting in various foreign currencies.

INTEREST RATE RISK. At March 31, 2002, the Company's cash equivalents and short-term investments totaled approximately $34,000. Since the Company typically does not purchase fixed-income securities, its cash and cash equivalents are not subject to significant interest rate risk. The Company places substantially all of its interest bearing investments with major financial institutions and by policy limits the amount of credit exposure to any one financial institution. Additionally, the Company does not hold or issue financial instruments for trading, profit or speculative purposes.

EQUITY PRICE RISK The Company does not invest in available-for-sale equity securities, and is not subject to significant equity price risk.

FOREIGN EXCHANGE RATE RISK The Company operates internationally and sometimes receives payments in local currencies. This can expose the Company to market risk from changes in foreign exchange rates to the extent that transactions are not denominated in the U.S. dollar. As a result the Company faces the risk that the foreign currencies may decline in value as compared to the U.S. dollar, resulting in a foreign currency translation loss.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not involved in any material legal proceedings.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

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

Not applicable

ITEM 5. OTHER INFORMATION

Not applicable

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

FRANKLIN TELECOMMUNICATIONS CORP.

By /s/ MARTIN S. ALBERT

Martin S. Albert
Chief Executive Officer

Dated: May 15, 2002

By /s/ FRANK W. PETERS

Frank W. Peters
Acting Chief Financial Officer

Dated: May 15, 2002