

ARC WIRELESS SOLUTIONS INC
Form 10-Q
August 12, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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 June 30, 2011

OR

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

For the transition period from _____ to _____

000-18122
(Commission File Number)

ARC Wireless Solutions, Inc.
(Exact name of registrant as specified in its charter)

Utah
(State or other jurisdiction of
incorporation)

87-0454148
(IRS Employer Identification Number)

6330 North Washington Street, Suite 13

Denver, Colorado, 80216-1146
(Address of principal executive offices including zip code)

(303) 421-4063
(Registrant's telephone number, including area code)

Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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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 No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of August 1, 2011, the Registrant had 3,091,350 shares outstanding of its \$.0005 par value common stock.

ARC Wireless Solutions, Inc.

Quarterly Report on FORM 10-Q For The Period Ended

June 30, 2011

TABLE OF CONTENTS

| | | |
|--------------------------------------|--|-----------|
| PART I. FINANCIAL INFORMATION | | |
| Item 1. | Financial Statements | |
| | Condensed Consolidated Balance Sheets as of June 30, 2011 (unaudited) and December 31, 2010 | 3 |
| | Condensed Consolidated Statements of Operations for the Three Months and Six Months Ended June 30, 2011 and 2010 (unaudited) | 4 |
| | Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2011 and 2010 (unaudited) | 5 |
| | Notes to Condensed Consolidated Financial Statements | 6 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 12 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 14 |
| Item 4. | Controls and Procedures | 15 |
| PART II. OTHER INFORMATION | | |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 15 |
| Item 6. | Exhibits | 16 |
| SIGNATURES | | 17 |

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

ARC Wireless Solutions, Inc.
Condensed Consolidated Balance Sheets
(in thousands, except share and per share amounts)

| | June 30, 2011 (unaudited) | December 31, 2010 * |
|--|---------------------------------|---------------------------|
| Assets | | |
| Current assets: | | |
| Cash and equivalents | \$ 11,065 | \$ 11,643 |
| Accounts receivable – trade, net | 445 | 385 |
| Inventory, net | 539 | 548 |
| Other current assets | 39 | 29 |
| Total current assets | 12,088 | 12,605 |
| Property and equipment, net | 256 | 272 |
| Other assets: | | |
| Intangible assets, net | 120 | 114 |
| Deposits | 6 | 2 |
| Total assets | \$ 12,470 | \$ 12,993 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 149 | \$ 212 |
| Accrued expenses | 187 | 404 |
| Current portion of capital lease obligations | 83 | 95 |
| Total current liabilities | 419 | 711 |
| Capital lease obligations, less current portion | - | - |
| Total liabilities | 419 | 711 |
| Stockholders' equity: | | |
| Preferred stock, \$.001 par value, 2,000,000 authorized, none issued and outstanding | - | - |
| Common stock, \$.0005 par value, 250,000,000 authorized, 3,091,000 outstanding in 2011 and 2010, respectively. | 2 | 2 |
| Additional paid-in capital | 20,814 | 20,798 |
| Accumulated deficit | (8,765) | (8,518) |
| Total stockholders' equity | 12,051 | 12,282 |
| Total liabilities and stockholders' equity | \$ 12,470 | \$ 12,993 |

* These numbers were derived from the audited financial statements for the year ended December 31, 2010. See accompanying notes.

ARC Wireless Solutions, Inc.
Condensed Consolidated Statements of Operations
(Unaudited, in thousands except share and per share amounts)

| | Three Months Ended | | Six Months Ended | |
|---------------------------------------|--------------------|-----------|------------------|-----------|
| | June 30, | | June 30, | |
| | 2011 | 2010 | 2011 | 2010 |
| Sales, net | \$854 | \$942 | \$1,677 | \$2,084 |
| Cost of sales | 557 | 593 | 1,136 | 1,438 |
| Gross Profit | 297 | 349 | 541 | 646 |
| Operating expenses | | | | |
| Selling, general and administrative | 441 | 564 | 808 | 1,136 |
| Loss from operations | (144) | (215) | (267) | (490) |
| Other Income (expense) | | | | |
| Interest expense | - | (1) | - | (2) |
| Other income | 10 | 12 | 20 | 23 |
| Total other income | 10 | 11 | 20 | 21 |
| Net loss | \$(134) | \$(204) | \$(247) | \$(469) |
| Net loss per share, basic and diluted | \$(.04) | \$(.07) | \$(.08) | \$(.15) |
| Weighted average shares, basic | 3,091,000 | 3,091,000 | 3,091,000 | 3,091,000 |
| Weighted average shares, diluted | 3,091,000 | 3,091,000 | 3,091,000 | 3,091,000 |

See accompanying notes.

ARC Wireless Solutions, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited, in thousands)

| | Six Months Ended June 30, | |
|---|---------------------------|-----------|
| | 2011 | 2010 |
| Operating activities | | |
| Net loss from operations | \$(247) | \$(469) |
| Adjustments to reconcile net loss from operations to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 88 | 100 |
| Non-cash stock compensation | 16 | 16 |
| Provision for doubtful accounts | | |
| Changes in operating assets and liabilities: | 5 | - |
| Accounts receivable, trade | (65) | 112 |
| Inventory | 9 | 119 |
| Prepays and other current assets | (10) | (25) |
| Other assets | (4) | 5 |
| Accounts payable and accrued expenses | (280) | (412) |
| Net cash used in operating activities | (488) | (554) |
| Investing activities | | |
| Patent acquisition costs | (12) | (7) |
| Purchase of plant and equipment | (66) | (58) |
| Net cash used in investing activities | (78) | (65) |
| Financing activities | | |
| Net repayment of line of credit and capital lease obligations | (12) | (24) |
| Net cash used in financing activities | (12) | (24) |
| Net decrease in cash | (578) | (619) |
| Cash and cash equivalents, beginning of year | 11,643 | 11,785 |
| Cash and cash equivalents, end of quarter | \$ 11,065 | \$ 11,166 |

See accompanying notes.

ARC Wireless Solutions, Inc.
Notes to Condensed Consolidated Financial Statements
June 30, 2011

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, the accompanying unaudited consolidated condensed financial statements contain all of the normal recurring adjustments necessary to present fairly the financial position of the Company as of June 30, 2011, the results of its operation and its cash flows for the three months and six months then ended. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

During the periods presented in the unaudited consolidated condensed financial statements, the Company operated in one business segment which is identified as Manufacturing which offers a wide variety of wireless components and network solutions to service providers, systems integrators, value added resellers, businesses and consumers, primarily in the United States.

Operating results for the three months and six months ended June 30, 2011 are not necessarily indicative of the results to be expected for the full year or any future period.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of ARC Wireless Solutions, Inc. ("ARC"), and its wholly-owned subsidiary corporations, Starworks Wireless Inc. ("Starworks" or "Kit") and ARC Wireless Hong Kong Limited ("ARCHK"). All material intercompany accounts, transactions, and profits have been eliminated in consolidation. In 2010 management determined ARCHK, our wholly-owned subsidiary, was no longer necessary and operations were terminated. ARCHK primarily managed our own China production operations which was no longer required when we transitioned to utilizing the manufacturing, product sourcing, and outsourcing services of Rainbow Industrial Limited ("RIL") during the third quarter of 2010, as described in Note 5.

Basis of Presentation

The Company has experienced recurring losses and has accumulated a deficit of approximately \$8.8 million since inception in 1989. There can be no assurance that the Company will achieve the desired result of net income and positive cash flow from operations in future years. Management believes that current working capital will be sufficient to allow the Company to maintain its operations through June 30, 2012 and into the foreseeable future.

Use of Estimates

The preparation of the Company's consolidated condensed financial statements in accordance with generally accepted accounting principles of the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Cash and Cash Equivalents

We consider all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. From time to time we have cash balances in excess of federally insured amounts. We maintain our cash balances with several financial institutions.

Fair Value of Financial Instruments

The Company's short-term financial instruments consist of cash, money market accounts, accounts receivable, accounts payable and accrued expenses. The carrying amounts of these financial instruments approximate fair value because of their short-term maturities. Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash and accounts receivable.

The Company does not hold or issue financial instruments for trading purposes nor does it hold or issue interest rate or leveraged derivative financial instruments.

Accounts Receivable

Trade receivables consist of uncollateralized customer obligations due under normal trade terms which normally require payment within 30 days of the invoice date. Management reviews trade receivables periodically and reduces the carrying amount by a valuation allowance that reflects management's best estimate of the amount that may not be collectible. The provision for doubtful accounts was \$0 at December 31, 2010 and \$5 thousand at June 30, 2011. Bad debt expense for the three months and six months ended June 30, 2011 was \$5 thousand and \$0 for the three months and six months ended June 30, 2010.

Income Taxes

The Company accounts for income taxes pursuant to Accounting Standards Codification ("ASC") 740, Income Taxes, which utilizes the asset and liability method of computing deferred income taxes. The objective of this method is to establish deferred tax assets and liabilities for any temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. The current and deferred tax provision is allocated among the members of the consolidated group on the separate income tax return basis.

ASC 740 also provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the financial statements. Tax positions must meet a "more-likely-than-not" recognition threshold at the effective date to be recognized. During the three months and six months ended June 30, 2011 and 2010, the Company recognized no adjustments for uncertain tax positions.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. No interest and penalties related to uncertain tax positions were recognized at June 30, 2011 and December 31, 2010. The Company expects no material changes to unrecognized tax positions within the next twelve months.

Reclassifications

Certain balances in the prior year consolidated financial statements have been reclassified in order to conform to the current year presentation. The reclassifications had no effect on financial condition, gross profit, or net loss.

Note 2. Share-Based Compensation

The Company accounts for share-based payments pursuant to ASC 718, Stock Compensation and, accordingly, the Company records compensation expense for share-based awards based upon an assessment of the grant date fair value for stock options and restricted stock awards.

Stock compensation expense for stock options is recognized on a straight-line basis over the vesting period of the award. The Company accounts for stock options as equity awards.

The following table summarizes share-based compensation expense recorded in selling, general and administrative expenses during each period presented (in thousands):

| | Three Months Ended | | Six Month Ended | |
|--|--------------------|------------------|------------------|------------------|
| | June 30, 2011 | June 30, 2010 | June 30, 2011 | June 30, 2010 |
| Stock options | \$ 8 | \$ 8 | \$ 16 | \$ 16 |
| Total share-based compensation expense | \$ 8 | \$ 8 | \$ 16 | \$ 16 |

Stock option activity was as follows:

| | Number of Shares | Weighted Average Exercise Price (\$) |
|----------------------------|---------------------|---|
| Balance at January 1, 2011 | 40,000 | \$ 5.40 |
| Granted | - | - |
| Exercised | - | - |
| Forfeited or expired | - | - |
| Balance at June 30, 2011 | 40,000 | \$ 5.40 |

The following table presents information regarding options outstanding and exercisable as of June 30, 2011:

| | |
|---|------------|
| Weighted average contractual remaining term - options outstanding | 6.23 years |
| Aggregate intrinsic value - options outstanding | - |
| Options exercisable | 32,000 |
| Weighted average exercise price – options exercisable | \$ 5.40 |
| Aggregate intrinsic value - options exercisable | - |
| Weighted average contractual remaining term - options exercisable | 6.23 years |

There were no options granted or exercised during the three months or six months ended June 30, 2011.

As of June 30, 2011, future compensation costs related to nonvested stock options was \$16 thousand. Management anticipates that this cost will be recognized over a weighted average period of one year.

Note 3. Earnings Per Share

Basic earnings (loss) per share includes no dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share, reflects the potential dilution of securities that could share in the earnings of the entity. For periods where the Company has incurred a net loss, stock options were not included in the computation of diluted loss per share because their effect was anti-dilutive, therefore, basic and fully diluted loss per share are the same for those periods. The following table represents a reconciliation of the shares used to calculate basic and diluted earnings (loss) per share for the respective periods indicated (in thousands, except per share amounts):

| | For the Three Months Ended June 30, | | | | | |
|--------------------------------------|--|-------------------------------|-------------------|--|-------------------------------|----------------------|
| | 2011 | | | 2010 | | |
| | Net Loss Attributed to Common Stock | Weighted Average Shares | Per Share Loss | Net Loss Attributed to Common Stock | Weighted Average Shares | Per Share Loss |
| Basic EPS: | | | | | | |
| Net Loss | \$(134) | 3,091 | \$(.04) | \$(204) | 3,091 | \$(.07) |
| Effect of Dilutive Securities | | | | | | |
| Employee stock options | - | - | - | - | - | - |
| Diluted loss per share | \$(134) | 3,091 | \$(.04) | \$(204) | 3,091 | \$(.07) |

| | For the Six Months Ended June 30, | | | | | |
|--------------------------------------|--|-------------------------------|-------------------|--|-------------------------------|----------------------|
| | 2011 | | | 2010 | | |
| | Net Loss Attributed to Common Stock | Weighted Average Shares | Per Share Loss | Net Loss Attributed to Common Stock | Weighted Average Shares | Per Share Loss |
| Basic EPS: | | | | | | |
| Net Loss | \$(247) | 3,091 | \$(.08) | \$(469) | 3,091 | \$(.15) |
| Effect of Dilutive Securities | | | | | | |
| Employee stock options | - | - | - | - | - | - |
| Diluted loss per share | \$(247) | 3,091 | \$(.08) | \$(469) | 3,091 | \$(.15) |

Note 4. Inventory

Commencing January 1, 2011, inventory is valued at the lower of cost or market using first in first out (FIFO) which approximate average cost, due to the rapid turnover of inventory. The Company previously valued its inventory at lower of cost or market using standard cost which approximated average cost, and as such, the change is not considered a change in accounting. Inventories are reviewed periodically and items considered to be slow-moving or obsolete are reduced to estimated net realizable value through an appropriate reserve. At June 30, 2011 and December 31, 2010, the inventory reserve was \$63 and \$64 thousand, respectively. Inventory consists of the following amounts (in thousands):

| | June 30, 2011 | December 31, 2010 |
|------------------|------------------|----------------------|
| Raw materials | \$ 80 | \$ 58 |
| Work in progress | - | - |
| Finished goods | 522 | 554 |

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| | | |
|-------------------|--------|--------|
| Subtotal | 602 | 612 |
| Inventory reserve | (63) | (64) |
| Net inventory | \$ 539 | \$ 548 |

9

Note 5. Related Party Transactions

In 2009, the Company entered into a financial advisory engagement (the "Agreement") with Quadrant Management, Inc. (the "Advisor"). Quadrant Management, Inc. is under common control with Brean Murray Carret Group, Inc. ("Brean"), an entity that, together with a current director of the Company, beneficially owns approximately 684,000 shares, or approximately 22%, of the Company's common stock at January 31, 2011. The Company's current Chief Executive Officer has been a Managing Director at Quadrant Management, Inc. since 2005.

Pursuant to the Agreement, the Advisor provides to ARC financial advisory and business consulting services, including restructuring services. In consideration for the restructuring services which have been provided by the Advisor and for the ongoing services to be provided, ARC agreed to pay the following: 1) an initial cash fee of \$250 thousand upon signing the Agreement in January 2009; 2) during 2009 and future years, ARC will pay an annual fee of the greater of (i) \$250 thousand or (ii) 20% of any increase in reported earnings before interest, taxes, depreciation and amortization after adjusting for one-time and non-recurring items ("EBITDA") for the current financial year over preceding year, or (iii) 20% of reported EBITDA for the current financial year, and; 3) all reasonable out-of-pocket expenses incurred by Advisor in performing services under the Agreement. The 2010 annual fee of \$250 thousand is included in accrued liabilities at December 31, 2010. Approximately \$86 thousand of the 2011 annual fee was included in accrued liabilities at June 30, 2011. The Agreement will expire on December 31, 2013.

During the third quarter of 2010, we began utilizing the manufacturing, product sourcing, and outsourcing services of Rainbow Industrial Limited ("RIL") which is based in China. RIL is wholly owned by an affiliate of Quadrant Management, Inc., which is affiliated with us and our Chief Executive Officer. We purchase goods and services from RIL, the actual dollar amount can vary significantly with normal fluctuations in business activity. At June 30, 2011 we had payables to RIL of approximately \$60 thousand.

Note 6. Recent Accounting Pronouncements

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (ASC Topic 820) — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this ASU result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRS. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. To improve consistency in application across jurisdictions some changes in wording are necessary to ensure that U.S. GAAP and IFRS fair value measurement and disclosure requirements are described in the same way. The ASU also provides for certain changes in current GAAP disclosure requirements, for example with respect to the measurement of level 3 assets and for measuring the fair value of an instrument classified in a reporting entity's shareholders' equity. The amendments in this ASU are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. The adoption of this guidance is not anticipated to have a material impact on our consolidated financial position, results of operations or cash flows.

In May 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (ASC Topic 220) — Presentation of Comprehensive Income. The amendments from this update will result in more converged guidance on how comprehensive income is presented under both U.S. GAAP and IFRS. With this update to ASC 220, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The amendments in this update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income,

nor does it affect how earnings per share is calculated or presented. Current U.S. GAAP allows reporting entities three alternatives for presenting other comprehensive income and its components in financial statements. One of those presentation options is to present the components of other comprehensive income as part of the statement of changes in stockholders equity. This update eliminates that option. The amendments in this ASU should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance is not anticipated to have a material impact on our consolidated financial position, results of operations or cash flows.

Note 8. Concentration of Credit Risk

One customer accounted for approximately 33% and 24% of the Company's net sales for the six months ended June 30, 2011 and 2010, respectively. A reduction, delay or cancellation of orders from this customer or the loss of this customer could significantly reduce the Company's revenues and operating results. We cannot provide assurance that this customer or any of our current customers will continue to place orders, that orders by existing customers will continue at current or historical levels or that we will be able to obtain orders from new customers.

Note 9. Industry Segment Information

ASC 280, Segment Reporting, requires that the Company disclose certain information about its operating segment where operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the basis that is used internally for evaluating segment performance and deciding how to allocate resources to segments. The Company has one reportable segment, Manufacturing, which is a separate business unit that offers a variety of wireless components and network solutions to service providers, system integrators, value added resellers, businesses and consumers, primarily in the United States.

Note 10. Subsequent Events

Management has evaluated the impact of events occurring after June 30, 2011 up to the date of the filing of these condensed consolidated financial statements. These statements contain all necessary adjustments and disclosures resulting from that evaluation.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to assist you in understanding our business and the results of our operations. It should be read in conjunction with the Consolidated Condensed Financial Statements and the related notes that appear elsewhere in this report as well as our Annual Report on Form 10-K for the year ended December 31, 2010. Certain statements made in our discussion may be forward looking. Forward-looking statements involve risks and uncertainties and a number of factors could cause actual results or outcomes to differ materially from our expectations. These risks, uncertainties, and other factors include, among others, the risks described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the Securities and Exchange Commission, as well as other risks described in this Quarterly Report. Unless the context requires otherwise, when we refer to "we," "us" and "our," we are describing ARC Wireless Solutions, Inc. and its consolidated subsidiaries on a consolidated basis.

BUSINESS OVERVIEW

We focus on wireless broadband technology related to propagation and optimization. We design and develop antennas that extend the reach of broadband and other wireless networks and that simplify the implementation of those networks. We supply our products to public and private carriers, wireless infrastructure providers, wireless equipment distributors, value added resellers and other original equipment manufacturers. Our strategy is focused on enhancing value for our stockholders by increasing revenues while at the same time reducing our overhead.

Growth in product revenue is dependent both on gaining further traction with current and new customers for the existing product portfolio as well as further acquisitions to support our wireless initiatives. Revenue growth for antenna products is correlated to overall global wireless market growth and a portion of our growth in this market has slowed due to the increasing use of fully integrated solutions and the current global economic conditions. We continue to focus on keeping our operational and general costs down in order to improve our gross margins until demand rebounds.

Specific growth areas are last mile wireless broadband Internet delivered over standards-based solutions such as Worldwide Interoperability for Microwave Access ("WiMAX"), WiFi or vendor specific proprietary solutions for point-to-point and point-to-multipoint applications, and industrial automation markets; Global Positioning Systems ("GPS") and Mobile SATCOM solutions for network timing, fleet and asset tracking and monitoring; Machine to machine ("M2M") communications for controlling or monitoring data from devices; and cellular base station antennas to build out or optimize carrier networks.

During the third quarter of 2010, we began utilizing the manufacturing, product sourcing, and outsourcing services of Rainbow Industrial Limited ("RIL") which is based in China. RIL is wholly owned by an affiliate of Quadrant Management, Inc., which is affiliated with us and our Chief Executive Officer. We purchase goods and services from RIL valued at approximately \$200 thousand per month; however the actual dollar amount can vary significantly with normal fluctuations in business activity. We use RIL's services because we believe in doing so it may lower our costs and simplify our internal accounting procedures.

Financial Condition

At June 30, 2011, we had approximately \$11.7 million in working capital, which represents a decrease of approximately \$200 thousand from working capital at December 31, 2010 of \$11.9 million.

We have seen a decline in orders from customers, both domestically and internationally, as a result of the current economic environment and due to the increasing use of fully integrated solutions rather than the component solutions we offer. While we do not expect this trend to reverse in 2011, we continue our efforts to acquire new customers and

update our product portfolio.

12

Management believes that current working capital will be sufficient to allow us to maintain our operations through June 30, 2012 and into the foreseeable future.

Results of Continuing Operations for the Three Months Ended June 30, 2011 and 2010

Total revenues were approximately \$854 thousand for the three months ended June 30, 2011 and \$942 thousand for the three months ended June 30, 2010. The decrease in revenues during the three months ended June 30, 2011 compared to the three months ended June 30, 2010 is primarily attributable to general decrease in broadband wireless sales which was partially offset by an increase in our GPS antenna sales.

Gross profit margins were 35% and 37% for the three months ended June 30, 2011 and 2010, respectively. The slight decrease in gross margin is primarily due to product mix.

Selling, general and administrative expenses (SG&A) decreased 22% to \$441 thousand for the three months ended June 30, 2011 as compared to \$564 thousand for the three months ended June 30, 2010. SG&A as a percent of total revenues decreased from 60% for the three months ended June 30, 2010 to 52% for the three months ended June 30, 2011. Salaries and wages, remains the largest component of SG&A costs, constituting 29% of the total SG&A costs for the three months ended June 30, 2011 and 2010. The majority of the overall decrease in SG&A is related to a decrease in salary costs and decreases in US facility costs. We are continuing our efforts to streamline our operations and reduce costs in other areas.

Other income decreased during the second quarter 2011 to approximately \$10 thousand as compared to \$12 thousand in the second quarter 2010. The decline is primarily due to decreased interest income as a result of the decline in our cash balances in addition to a decline in interest rates on money market funds where a significant portion of the funds are invested.

There is no provision for income taxes for both the three months ended June 30, 2011 and 2010 due to our net losses for both periods.

Results of Continuing Operations for the Six Months Ended June 30, 2011 and 2010

Total revenues were approximately \$1.7 million for the six months ended June 30, 2011 and \$2.1 million for the six months ended June 30, 2010. The decrease in revenues during the six months ended June 30, 2011 compared to the six months ended June 30, 2010 is primarily attributable to general decrease in broadband wireless sales which was partially offset by an increase in our GPS antenna sales.

Gross profit margins were 32% and 31% for the six months ended June 30, 2011 and 2010, respectively. The slight increase in gross margin is due to our continuing focus on cutting our operational costs.

Selling, general and administrative expenses (SG&A) decreased 27% to \$808 thousand for the six months ended June 30, 2011 as compared to \$1.1 million for the six months ended June 30, 2010. SG&A as a percent of total revenues decreased from 55% for the six months ended June 30, 2010 to 48% for the six months ended June 30, 2011. Salaries and wages, remains the largest component of SG&A costs, constituting 28% of the total SG&A costs for the six months ended June 30, 2011 and 29% of the total SG&A costs for the six months ended June 30, 2010. The majority of the overall decrease in SG&A is related to a decrease in salary costs and decreases in US facility costs. We are continuing our efforts to streamline our operations and reduce costs in other areas.

Other income decreased during the six months ended June 30, 2011 to approximately \$20 thousand as compared to \$23 thousand in the six months ended June 30, 2010. The decline is primarily due to decreased interest income as a result of the decline in our cash balances in addition to a decline in interest rates on money market funds where a significant portion of the funds are invested.

There is no provision for income taxes for both the six months ended June 30, 2011 and 2010 due to our net losses for both periods.

Financial Condition (in thousands of dollars)

| | December 31, | |
|-----------------------------|---------------|------------|
| | June 30, 2011 | 2010 |
| Current ratio (1) | 28.85 to 1 | 17.72 to 1 |
| Working capital (2) | \$ 11,669 | \$ 11,894 |
| Total debt | \$ 419 | \$ 711 |
| Total cash less debt | \$ 10,646 | \$ 10,932 |
| Stockholders equity | \$ 12,051 | \$ 12,282 |
| Total liabilities to equity | .035 to 1 | .05 to 1 |

(1) Current ratio is calculated as current assets divided by current liabilities.

(2) Working capital is the difference between current assets and current liabilities.

We have a cash balance of \$11.1 million at June 30, 2011 and hold no long-term debt outstanding. We believe that we have the ability to provide for operational needs through projected operating cash flow and cash on hand through June 30, 2012.

The net cash used by operating activities was \$488 thousand for the six months ended June 30, 2011 compared to net cash used by operating activities of \$554 thousand for the six months ended June 30, 2010. The primary reason for the change is a reduction in the net loss from operations of \$222 thousand comparing the six months ended June 30, 2011 compared to the six months ended June 30, 2010.

The net cash used in investing activities was \$78 thousand for the six months ended June 30, 2011 compared to \$65 thousand for the six months ended June 30, 2010, primarily the result of capital expenditures for molds and machinery.

Net cash used in financing activities was \$12 thousand for the six months ended June 30, 2011 and \$24 thousand for the six months ended June 30, 2010.

Off Balance Sheet Arrangements

The Company does not have any off balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

Pursuant to permissive authority under Regulation S-K, Rule 305, we have omitted Quantitative and Qualitative Disclosures About Market Risk.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our filings with the Securities and Exchange Commission (SEC) are recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our chief executive and acting chief financial officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure based on the definition of "disclosure controls and procedures" as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

As of the end of the period covered by this report, and under the supervision and with the participation of our management, including our Chief Executive Officer and the person performing the similar function as Chief Financial Officer, we evaluated the effectiveness of the design and operation of these disclosure controls and procedures. Based on this evaluation and subject to the foregoing, our Chief Executive Officer and acting Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 6. Exhibits

EXHIBIT INDEX

| Exhibit Number | Description |
|----------------|--|
| 3.1 | Amended and Restated Articles of Incorporation dated October 11, 2000 (1) |
| 3.2 | Bylaws of the Company as amended and restated on March 25, 1998 (2) |
| 10.2 | Stock Purchase Agreement, by and among Bluecoral limited, Winncom Technologies Corp. and the Company dated as of July 28, 2006 (3) |
| 10.3 | Escrow Agreement, dated July 28, 2006, by and among the Company, Bluecoral Limited and Consumer Title Services, LLC (3) |
| 10.4 | Employment Agreement effective January 31, 2008 between the Company and Randall P. Marx (4) |
| 10.5 | Employment Agreement effective November 1, 2007 between the Company and Monty R. Lamirato (5) |
| 10.6 | Employment Agreement effective November 1, 2007 between the Company and Steve C. Olson (5) |
| 10.7 | Employment Agreement effective November 1, 2007 between the Company and Richard L. Anderson (5) |
| 31.1 * | Officers' Certifications of Periodic Report pursuant to Section 302 of Sarbanes-Oxley Act of 2002 |
| 31.2 * | Officers' Certifications of Periodic Report pursuant to Section 302 of Sarbanes-Oxley Act of 2002 |
| 32.1 * | Officers' Certifications of Periodic Report pursuant to Section 906 of Sarbanes-Oxley Act of 2002 |

(1) Incorporated by reference from the Company's Form 10-KSB for December 31, 2000 filed on April 2, 2001.
(2) Incorporated by reference from the Company's Form 10-KSB for December 31, 1997 filed on March 31, 1998.
(3) Incorporated by reference from the Company's Form 8-K/A filed on August 2, 2006.
(4) Incorporated by reference from the Company's Form 8-K filed on February 7, 2008.
(5) Incorporated by reference from the Company's Form 8-K filed on November 8, 2007.

* filed herewith

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.

ARC WIRELESS SOLUTIONS, INC.

Date: August 12, 2011

By: /s/ Jason Young
Jason Young
Chief Executive Officer

Date: August 12, 2011

By: /s/ Steve Olson
Steve Olson
Chief Technology Officer and
Acting Principal Financial Officer