ARC WIRELESS SOLUTIONS INC
Form 10-Q
November 14, 2006

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# FORM 10 Q

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF**
**THE SECURITIES EXCHANGE ACT OF 1934.**

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from ___________________________

**000-18122**
*(Commission File Number)*

# ARC Wireless Solutions, Inc.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **UTAH** | **87-0454148** |
| *(State or other jurisdiction of incorporation)* | *(I.R.S. Employer Identification Number)* |

**10601 West 48th Avenue**
**Wheat Ridge, Colorado, 80033-2660**
*(Address of principal executive offices including zip code)*

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

**Not Applicable**
*(Former Name or Former Address, 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 [ X ] No [ ]

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

Large Accelerated Filer [ ] Accelerated Filer [ ] Non-Accelerated Filer [ x ]

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

As of November 1, 2006, the Registrant had 154,359,449 shares outstanding of its $.0005 par value common stock.

**ARC Wireless Solutions, Inc.**

**Quarterly Report on Form 10-Q For The Period Ended September 30, 2006**

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**Part I. FINANCIAL INFORMATION**

Item 1. Financial Statements

**ARC Wireless Solutions, Inc.**
**Condensed Consolidated Balance Sheets**

| | September 30, 2006 | December 31, 2005 |
|---|---|---|
| | (unaudited) | * |
| **Assets** | | |
| Current assets: | | |
| Cash and equivalents | $ 41,000 | $ 64,000 |
| Accounts receivable trade, net | 1,032,000 | 907,000 |
| Inventory, net | 835,000 | 919,000 |
| Deferred tax assets | 748,000 | 516,000 |
| Net assets of discontinued operation (Note 2) | 36,866,000 | 30,524,000 |
| Other current assets | 145,000 | 71,000 |
| Total current assets | 39,667,000 | 33,001,000 |
| Property and equipment, net | 342,000 | 342,000 |
| Other assets: | | |
| Intangible assets, net | 101,000 | 103,000 |
| Deposits | 51,000 | 43,000 |
| Total assets | $ 40,161,000 | $ 33,489,000 |
| **Liabilities and stockholders equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 1,050,000 | $ 353,000 |
| Bank debt current | 1,186,000 | 554,000 |
| Accrued expenses | 214,000 | 302,000 |
| Net liabilities of discontinued operation (Note 2) | 20,902,000 | 15,339,000 |
| Current portion of capital lease obligations | 32,000 | 66,000 |
| Total current liabilities | 23,384,000 | 16,614,000 |
| Deferred tax liabilities | 26,000 | 26,000 |
| Capital lease obligations, less current portion | 36,000 | 39,000 |
| Total liabilities | 23,446,000 | 16,679,000 |
| Commitments | | |
| Stockholders equity: | | |
| Common stock | 78,000 | 78,000 |
| Preferred stock | | |

| | September 30, 2006 | December 31, 2005 |
|---|---|---|
| Additional paid-in capital | 21,775,000 | 21,760,000 |
| Treasury stock | (1,195,000) | (1,195,000) |
| Accumulated deficit | (3,943,000) | (3,833,000) |
| Total stockholders equity | 16,715,000 | 16,810,000 |
| Total liabilities and stockholders equity | $ 40,161,000 | $ 33,489,000 |

** These numbers were derived from the audited financial statements for the year ended December 31, 2005 and adjusted for discontinued operations. See accompanying notes.*

**ARC Wireless Solutions, Inc.**
**Condensed Consolidated Statements of Operations**

| | Three Months Ended September 30, 2006 | Three Months Ended September 30, 2005 | Nine Months Ended September 30, 2006 | Nine Months Ended September 30, 2005 |
|---|---|---|---|---|
| | (unaudited) | | | (unaudited) |
| Sales, net | $ 1,837,000 | $ 2,041,000 | $ 5,210,000 | $ 4,818,000 |
| Cost of sales | 1,369,000 | 1,175,000 | 3,928,000 | 2,837,000 |
| Gross profit | 468,000 | 866,000 | 1,282,000 | 1,981,000 |
| Operating expenses: | | | | |
| Selling, general and administrative expenses | 813,000 | 680,000 | 2,343,000 | 2,000,000 |
| Income (loss) from operations | (345,000) | 186,000 | (1,061,000) | (19,000) |
| Other income (expense): | | | | |
| Interest expense, net | (36,000) | (27,000) | (96,000) | (99,000) |
| Other income | 1,000 | | 2,000 | 62,000 |
| Total other income (expense) | (35,000) | (27,000) | (94,000) | (37,000) |
| Income (Loss) from continuing operations before income taxes | (380,000) | 159,000 | (1,155,000) | (56,000) |
| (Provision) benefit for income taxes | 49,000 | (21,000) | 227,000 | (21,000) |
| Income (loss) from continuing operations | (331,000) | 138,000 | (928,000) | (76,000) |
| Discontinued Operations (Note 2) | | | | |
| Income from operations of the discontinued component | 80,000 | 119,000 | 994,000 | 455,000 |
| (Provision) benefit for income taxes, discontinued component | 61,000 | (17,000) | (176,000) | (32,000) |
| Net Income (Loss) | $ (190,000) | $ 240,000 | $ (110,000) | $ 347,000 |
| Net income (loss) per share continuing operations Basic and Diluted | $ (.002) | $ .001 | $ (.006) | $ (.001) |
| Net income per share discontinued operations Basic and Diluted | $ .001 | $ .001 | $ .005 | $ .003 |
| Net income (loss) per share Basic and Diluted | $ (.001) | $ .002 | $ (.001) | $ .002 |
| Weighted average shares Basic | 154,400,000 | 154,288,000 | 154,300,000 | 154,067,000 |
| Weighted average shares Diluted | 154,400,000 | 154,288,000 | 154,300,000 | 154,167,000 |

| | Three Months Ended September 30, | Nine Months Ended September 30, |
|---|---|---|
| | | |

*See accompanying notes.*

**ARC Wireless Solutions, Inc.**
**Condensed Consolidated Statements of Cash Flows**

| | Nine Months Ended September 30, 2006 | 2005 |
|---|---|---|
| | (unaudited) | |
| **Operating activities** | | |
| Loss from continuing operations | $ (928,000) | $(76,000) |
| Adjustments to reconcile loss from continuing operations to net cash used in operating activities: | | |
| Depreciation and amortization | 110,000 | 142,000 |
| Non-cash expense for issuance of stock and options | 15,000 | 55,000 |
| Deferred taxes | (232,000) | |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, trade | (125,000) | (74,000) |
| Inventory | 84,000 | (29,000) |
| Prepaids and other current assets | (74,000) | (42,000) |
| Other assets | (8,000) | |
| Accounts payable and accrued expenses | 609,000 | (41,000) |
| Net cash used in continuing operations | (549,000) | (65,000) |
| Net cash provided by discontinued operations | 1,501,000 | 923,000 |
| Net cash provided by operating activities | 952,000 | 858,000 |
| **Investing activities** | | |
| Patent acquisition costs | (10,000) | (5,000) |
| Purchase of plant and equipment | (76,000) | (73,000) |
| Net cash used in investing activities, continuing operations | (86,000) | (78,000) |
| Purchase of plant and equipment, discontinued operations | (58,000) | (26,000) |
| Net cash used in investing activities, discontinued operations | (58,000) | (26,000) |
| Net cash used in investing activities | (144,000) | (104,000) |
| **Financing activities** | | |
| Net advances from line of credit | 632,000 | 200,000 |
| Net repayment of line of credit and capital lease obligations | (59,000) | (29,000) |
| Net cash provided by financing activities, continuing operations | 573,000 | 171,000 |
| Net repayment of line of credit and bank debt, discontinued operations | (1,404,000) | (938,000) |
| Net cash used in financing activities, discontinued operations | (1,404,000) | (938,000) |
| Net cash used in financing activities | (831,000) | (767,000) |
| Net change in cash | (23,000) | (13,000) |

| | Nine Months Ended September 30, | |
|---|---|---|
| Cash, beginning of period | 64,000 | 74,000 |
| Cash, end of period | $ 41,000 | $ 61,000 |
| | | |
| Supplemental cash flow information: | | |
| Cash paid for interest, continuing operations | $ 96,000 | $ 99,000 |
| Cash paid for interest, discontinued operations | 97,000 | 94,000 |
| Cash paid for taxes, continuing operations | | |
| Cash paid for taxes, discontinued operations | $ 170,000 | |
| Equipment acquired under capital lease, continuing operations | $ 22,000 | $ 17,000 |
| Issuance of common stock for accrued 401(k) employer matching contribution, continuing operations | | $ 57,000 |

*See accompanying notes.*

**ARC Wireless Solutions, Inc.**
**Notes to Condensed Consolidated Financial Statements**
**September 30, 2006**

**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, all adjustments considered necessary for a fair presentation have been included. 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, 2005.

During the periods presented in the unaudited condensed consolidated financial statements, the Company operated in three business segments which are identified as Distribution, Manufacturing and Cable offering a wide variety of wireless component and network solutions to service providers, systems integrators, value added resellers, businesses and consumers, primarily in the United States. The Distribution segment is classified as a Discontinued Operation, see Note 2, as it was sold effective November 1, 2006.

Operating results for the three months and nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ended December 31, 2006 or any future period.

**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, income (loss) from operations or net income.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates and such differences may be material to the financial statements.

**Consolidation Policy**

The accompanying unaudited condensed consolidated financial statements include the accounts of ARC Wireless Solutions, Inc. ( ARC or the Company ) and its wholly-owned subsidiary corporations, Winncom Technologies Corp. ( Winncom ), Starworks Wireless Inc. ( Starworks ) and ARC Wireless Hong Kong Limited ( ARCHK ), since their respective acquisition dates, after elimination of all material intercompany accounts, transactions, and profits.

**Share Based Compensation**

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R) ( SFAS 123(R) ) related to accounting for share-based payments and, accordingly, the Company is now recording compensation expense for share-based awards based upon an assessment of the grant date fair value for stock options and restricted stock awards. Prior to 2006, share based compensation was accounted for in accordance with Accounting Principles Board Opinion No. 25. We are using the modified prospective method of adoption, which allows us to apply SFAS 123(R) on a going-forward basis rather than restating prior periods.

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 general and administrative expenses during each period presented:

| | Three Months Ended September 30, 2006 | Nine Months Ended September 30, 2006 |
|---|---|---|
| Stock options | $ 3,000 | $ 7,000 |
| Total share-based compensation expense | $ 3,000 | $ 7,000 |

Prior to January 1, 2006 the Company followed APB Opinion No. 25 and related interpretations in accounting for its stock options and grants since the alternative fair market value accounting provided for under Statement of Financial Accounting Standards (SFAS) No. 123 ( SFAS No. 123 ) required use of grant valuation models that were not developed for use in valuing employee stock options and grants. Under APB Opinion No. 25, if the exercise price of the Company s stock grants and options equals or exceeds the fair value of the underlying stock on the date of grant, no compensation expenses are recognized.

If compensation cost for the Company s stock-based compensation plans had been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS No. 123, then the Company s net loss and per share amounts for the three months and nine months ended September 30, 2005, would have been adjusted to the pro forma amounts indicated below:

| | Three Months Ended September 30, 2005 | Nine Months Ended September 30, 2005 |
|---|---|---|
| Net income as reported | $ 240,000 | $ 347,000 |
| Add: stock based compensation included in reported net loss | | |
| Deduct: Stock-based compensation cost under SFAS 123 | (17,000) | (21,000) |
| Pro forma net income | $ 223,000 | $ 326,000 |
| Pro forma basic and diluted net loss per share: | | |
| Pro forma shares used in the calculation of pro forma net income per common share- basic | 154,288,000 | 154,067,000 |
| Pro forma shares used in the calculation of pro forma net income per common share- diluted | 154,288,000 | 154,167,000 |
| Reported net income per common share basic and diluted | $ .001 | $ .001 |
| Pro forma net income per common share basic and diluted | $ .001 | $ .001 |

Pro forma information regarding net loss is required by SFAS 123, which also requires that the information be determined as if the Company had accounted for grants subsequent to December 31, 1994 under a method specified by SFAS 123. Options granted were estimated using the Black-Scholes valuation model.

Stock option activity was as follows:

| | Number of Shares | Weighted Average Exercise Price ($) |
|---|---|---|
| Balance at January 1, 2006 | 2,600,000 | 0.15 |
| Granted | 250,000 | 0.13 |
| Exercised | | |
| Forfeited or expired | (250,000) | 0.15 |
| Balance at September 30, 2006 | 2,600,000 | 0.15 |

The following table presents information regarding options outstanding as of September 30, 2006:

| | |
|---|---|
| Weighted average contractual remaining term - options outstanding | 1.18 years |
| Aggregate intrinsic value - options outstanding | |
| Options exercisable | 2,350,000 |
| Weighted average exercise price - options exercisable | $ .15 |
| Aggregate intrinsic value - options exercisable | |
| Weighted average contractual remaining term - options exercisable | 1.18 years |

There was no intrinsic value for options outstanding or options exercisable since no options were exercised during the nine months ended September 30, 2006.

The following weighted average assumptions were used:

| | Three and Nine Months Ended September 30, 2006 | Three and Nine Months Ended September 30, 2005 |
|---|---|---|
| Volatility | .751 | 1.024 |
| Expected life of options (in years) | 2 | 2 |
| Dividend Yield | 0.00% | 0.00% |
| Risk free interest rate | 6.00% | 4.00% |
| Per share value of options granted | $ .06 | $ .09 |

As of September 30, 2006, future compensation costs related to nonvested stock options was $12,000. Management anticipates that this cost will be recognized over a weighted average period of 1.18 years.

**Note 2. Discontinued Operations**

On July 28, 2006, ARC Wireless Solutions, Inc (the Company ) executed a Stock Purchase Agreement ( Purchase Agreement ) with Bluecoral Limited ( Bluecoral ), an Irish Company, for the sale of its wholly-owned subsidiary, Winncom Technologies Corp. ( Winncom ) to Bluecoral for $17 million in cash, which was being held in escrow per the terms of the Purchase Agreement .

On October 31, 2006, the shareholders of the Company approved the sale of Winncom and the remaining conditions under the Purchase Agreement were satisfied. The Company received the $17,000,000 from the escrow agent on November 1, 2006..

This business segment, Distribution, has been accounted for as a discontinued operation, as an asset held for sale, and accordingly the net assets and liabilities have been segregated from continuing operations in the accompanying consolidated balance sheets for all periods presented and the results of operations have been excluded from continuing operations in the accompanying consolidated financial statements of operations and cash flows for all periods presented.

The net assets and liabilities of the discontinued operations of the distribution segment included in the accompanying consolidated balance sheets at September 30, 2006 and December 31, 2005 are as follows:

| | **September 30, 2006** | **December 31, 2005** |
|---|---|---|
| Current assets: | | |
| Cash and equivalents | $ 5,576,000 | $ 103,000 |
| Accounts receivable trade, net | 6,412,000 | 6,798,000 |
| Accounts receivable vendors, net | 913,000 | 766,000 |
| Inventory, net | 5,265,000 | 5,188,000 |
| Construction in progress | 4,337,000 | 5,900,000 |
| Other current assets | 3,301,000 | 730,000 |
| Total current assets | 25,804,000 | 19,485,000 |
| Property and equipment, net | 115,000 | 90,000 |
| Other assets: | | |
| Goodwill, net | 10,824,000 | 10,824,000 |
| Deposits | 123,000 | 125,000 |
| Total assets | $36,866,000 | $30,524,000 |
| **Liabilities and stockholders equity** | | |
| Current liabilities: | | |
| Accounts payable | $10,071,000 | $10,060,000 |
| Bank debt current | 2,525,000 | 1,459,000 |
| Accrued expenses | 528,000 | 455,000 |
| Billings in excess of recognized income | 7,778,000 | 896,000 |
| Total current liabilities | 20,902,000 | 12,870,000 |
| Bank debt, less current portion | | 2,469,000 |
| Total liabilities | $20,902,000 | $15,339,000 |

Information related to the discontinued operations for the three months and six months ended September 30, 2006 and 2005 are as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Sales, net | $ 9,637,000 | $ 10,449,000 | $ 25,710,000 | $ 23,856,000 |
| Contract revenue | 7,392,000 | | 17,482,000 | |
| Total revenue | 17,029,000 | 10,449,000 | 43,192,000 | 23,856,000 |
| Cost of sales | 8,578,000 | 9,332,000 | 22,438,000 | 20,608,000 |
| Cost of contract revenue | 7,008,000 | | 16,378,000 | |
| Total cost of goods sold | 15,586,000 | 9,332,000 | 38,816,000 | 20,608,000 |
| Gross profit | 1,443,000 | 1,117,000 | 4,376,000 | 3,248,000 |
| Operating expenses: | | | | |
| Selling, general and administrative expenses | 1,357,000 | 1,002,000 | 3,413,000 | 2,854,000 |
| Income from operations | 86,000 | 115,000 | 963,000 | 394,000 |
| Other income (expense): | | | | |
| Interest expense, net | (32,000) | (25,000) | (97,000) | (94,000) |
| Other income | 26,000 | 29,000 | 128,000 | 155,000 |
| Total other income (expense) | (6,000) | 3,000 | 31,000 | 61,000 |
| Income before income taxes | 80,000 | 119,000 | 994,000 | 455,000 |
| (Provision) Benefit for income taxes | 61,000 | (17,000) | (176,000) | (32,000) |
| Net Income | $ 141,000 | $ 102,000 | $ 818,000 | $ 423,000 |

Approximately $ 10 million and $24 million, respectively, of the total sales for the three months and nine months ended September 30, 2006 represented foreign sales in Eastern Europe which includes Russia, Kazakhstan and Uzbekistan. The increase in foreign sales is largely due to the long term construction contract in Kazakhstan.

Approximately $4 million and $6 million, respectively, of the total sales for the three months and nine months ended September 30, 2005 represented foreign sales in Eastern Europe which includes Russia, Kazakhstan and Uzbekistan.

On October 1, 2003, our subsidiary, Winncom, executed a new $4,000,000 line-of-credit agreement with a bank with interest at prime plus .5% (8.75% at September 30, 2006) due April 30, 2007 and converted $500,000 of the balance outstanding under the line of credit at September 30, 2003 into a 36-month term loan with monthly principal payments of $13,888 plus interest at prime plus .75% (9% at September 30, 2006). The term loan will become due on October 26, 2006. Substantially all of the assets of Winncom are collateral on the line of credit and the term loan.

The October 1, 2003 line of credit agreement contains several covenants, which, among other things, require that Winncom maintain certain financial ratios as defined in the agreement. In addition, the agreement limits the payment of management fees by Winncom to the Company, and also limits dividends and the purchase of property and equipment. As of September 30, 2006, Winncom was in compliance with these covenants.

In September 2005, Winncom entered into a one-year Line of Credit Agreement with Kazkommertsbank for $2.3 million with an annual interest rate of 13% for the purpose of funding a small portion of the Kazakhtelecom project, specifically project engineering, laying of fiber optic cable and telecommunication equipment purchases necessary to be completed before winter to avoid project delays. The Line of Credit Agreement was entered into only after Kazakhtelecom agreed to fully guarantee the repayment of Winncom s borrowings under the Line of Credit Agreement. The Line of Credit Agreement is collateralized only by the guarantee of Kazakhtelecom. Kazakhtelecom intends to repay the Line of Credit borrowings either from the proceeds of the permanent project financing or from its own capital. In September 2005, Winncom was advanced $1,334,000 under the Line of Credit Agreement and a portion of that balance still remains at September 30, 2006 and December 31, 2005.

| | **September 30, 2006** | **December 31, 2005** |
|---|---|---|
| Bank line of credit Winncom | $ 1,548,000 | $ 2,469,000 |
| Foreign bank line of credit Winncom | 977,000 | 1,334,000 |
| Bank term loan Winncom | | 125,000 |
| | 2,525,000 | 3,928,000 |
| Less current portion | (2,525,000) | (1,459,000) |
| Long-term portion | $ | $ 2,469,000 |

In October 2004, Winncom entered into a Frame Agreement (Agreement of Understanding) with Joint Stock Company Kazakhtelecom ( Kazakhtelecom ), Kazakhstan s national telecommunications operator for the Republic of Kazakhstan, that gives Winncom the right, subject to Winncom obtaining 100% financing for the project upon terms and conditions acceptable to Kazakhtelecom, and subject to a number of other matters, to undertake, on a turnkey basis, development of a modern telecommunications infrastructure to be located on the left bank of the City of Astana, Kazakhstan. With several competing bids, Winncom was awarded the contract after several months of negotiations. The total cost of the project is approximately $55,000,000.

The first phase of the contract is expected to be completed in 2006 and is expected to generate revenues of approximately $28 million of which $2.6 million has already been recognized in 2005.

The Company follows the percentage-of-completion method of accounting for long term contract revenue. Contracts are considered complete upon completion of all essential contract work, including support for integrated testing and customer acceptance.

Under the percentage-of-completion method, income is recognized on contracts as work progresses based on the relationship between total contract revenues and total estimated contract costs. The percentage of work completed is determined by comparing the accumulated labor costs incurred to date with management s current estimate of total labor costs to be incurred at contract completion. Revenue is recognized based on applying the percentage against the total contract amount. At September 30, 2006, a significant amount of equipment was purchased and shipped to the contract site. The uninstalled portion of the equipment was excluded from the calculation of accumulated costs in measuring contract progress and recognizable contract revenue.

Contract costs include all direct material and equipment, subcontractor costs, and labor costs and those indirect costs related to contract performance. Revisions in profit estimates during the period of a contract are reflected in the accounting period in which the revised estimates are made on the basis of the stage of completion at the time. If estimated total costs on a contract indicate a loss, the entire amount of the estimated loss is provided for currently.

Billings in excess of costs and estimated earnings on uncompleted contracts represents billings to customers in excess of earned revenue and advances on contracts.

Total contract revenue recognized for the three months and nine months ended September 30, 2006 was $7,287,000 and $10,090,000, respectively. No contract revenue was recorded for the three months and six months ended September 30, 2005.

The following amounts relate to the aggregate of contracts in progress as of September 30, 2006 and December 31, 2005.

| | September 30, 2006 | December 31, 2005 |
|---|---|---|
| Costs incurred to date | $ 23,011,000 | $ 8,196,000 |
| Contract costs recognized in 2005 | (2,296,000) | |
| Contract costs recognized in 2006 | (16,378,000) | (2,296,000) |
| Construction in progress | $ 4,337,000 | $ 5,900,000 |
| | | |
| Amounts billed | $ 27,892,000 | $ 3,528,000 |
| Revenue recognized in 2005 | (2,632,000) | (2,632,000) |
| Revenue recognized in 2006 | (17,482,000) | |
| Billings in excess of recognized income | $ 7,778,000 | $ 896,000 |

**Note 3. Earnings Per Share**

SFAS 128 provides for the calculation of Basic and Dilutive earnings (loss) 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 and stock warrants 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 per share for the respective periods indicated:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2006 | September 30, 2005 | September 30, 2006 | September 30, 2005 |
| Numerator: Net income (loss) from continuing operations | $ (331,000) | $ 138,000 | $ (928,000) | $ (76,000) |
| Numerator: Net income from discontinued operations | $ 141,000 | $ 102,000 | $ 818,000 | $ 423,000 |
| Denominator: | | | | |
| Denominator for basic earnings per share weighted average shares | 154,400,000 | 154,288,000 | 154,300,000 | 154,067,000 |
| Effect of dilutive securities | | | | |
| Employee stock options (**) | | | | 100,000 |
| Denominator for diluted earnings per share adjusted weighted average shares and assumed conversion | 154,400,000 | 154,288,000 | 154,300,000 | 154,167,000 |
| Basic earnings (loss) per share, continuing operations | $ (.002) | $ .001 | $ (.006) | $ (.001) |
| Diluted earnings (loss) per share, continuing operations | $ (.002) | $ .001 | $ (.006) | $ (.001)) |
| Basic earnings per share, discontinued operations | $ .001 | $ .001 | $ .005 | $ .003 |
| Diluted earnings per share, discontinued operations | $ .001 | $ .001 | $ .005 | $ .003 |

** There are no dilutive shares for the three months and six months ended September 30, 2006, since the Company had net loses for those periods.

**Note 4. Inventory**

Inventory is valued at the lower of cost or market using standard costs that approximate average cost. Inventories are reviewed periodically and items considered to be slow-moving or obsolete are reduced to estimated net realizable value through an appropriate reserve. Inventory consists of the following:

| | September 30, 2006 | December 31, 2005 |
|---|---|---|
| Raw materials | $ 909,000 | $ 954,000 |
| Work in progress | 141,000 | 129,000 |
| Finished goods | 480,000 | 416,000 |
| | 1,530,000 | 1,499,000 |
| Inventory reserve | (695,000) | (580,000) |
| Net inventory | $ 835,000 | $ 919,000 |

**Note 5. Revolving Bank Loan Agreements**

The Company entered into a financing agreement (the WFBC Facility ) with Wells Fargo Business Credit, Inc. ( WFBC ), on December 9, 2003. The financing agreement was for a term of one year and was renewable for additional one-year terms. The WFBC Facility provided for the sale of accounts receivable by the Company to WFBC at a 1% discount for the first 15 days and an additional ..055 of 1% per day until the account receivable is paid in full. Sales of accounts receivable and advances under the WFBC Facility were subject to conditions and restrictions, including, without limitation, accounts receivable eligibility restrictions, verification, and approval. Obligations under the WFBC Facility were collateralized by substantially all of the assets of the Company. Advances under the WFBC Facility were made at the sole discretion of WFBC, even if the accounts receivable offered by ARC for sale to WFBC satisfied all necessary conditions and restrictions. WFBC was under no obligation to purchase accounts receivable from the Company or to advance any funds or credit to the Company under the WFBC Facility. This financing agreement was terminated on May 10, 2005.

On May 10, 2005 the Company entered into a new $1.5 million revolving line-of-credit agreement (the Credit Facility ) with Citywide Banks. The new Credit Facility has an annual maturity, is currently due May 10, 2007, with interest at 1.75% over prime (10% at September 30, 2006), contains covenants to maintain certain financial statement ratios, and is collateralized by essentially all of the assets of ARC and its wholly owned subsidiary, Starworks, but excluding Winncom Technologies Corp. The borrowing base is calculated on a percentage of trade accounts receivable and inventory for ARC and Starworks combined. As of September 30, 2006 and December 31, 2005, ARC was in compliance with these covenants. The balance outstanding on the revolving line of credit at September 30, 2006 and December 31, 2005 was $1,186,000 and $554,000, respectively.

**Note 6. Equity Transactions**

During the three months and nine months ended September 30, 2006, the Company recorded the issuance of 29,629 and 59,258 shares of common stock, respectively, to a director for outstanding obligations for accrued directors fees in the amount of $4,000 and $8,000, respectively.

For the quarter ended March 31, 2005, the Company recorded the issuance of 3,332 shares of common stock to directors for outstanding obligations for accrued directors fees in the amount of $500. In addition, during the quarter ended March 31, 2005, 20,000 shares of common stock were cancelled in a dispute regarding shares issued for consulting fees in 2001.

In May 2005 the Company contributed 407,488 shares of common stock, valued at $57,000, into the ARC Wireless Solutions, Inc. 401(k) Plan as an employer matching contribution for the Plan year 2004.

**Note 7. Recent Accounting Pronouncements**

In June 2006, the FASB ratified the consensus reached by the EITF on EITF Issue No. 05-01, *Accounting for the Conversion of an Instrument That Becomes Convertible Upon the Issuer s Exercise of a Call Option* ( EITF 05-01 ). The EITF consensus applies to the issuance of equity securities to settle a debt instrument that was not otherwise currently convertible but became convertible upon the issuer s exercise of call option when the issuance of equity securities is pursuant to the instrument s original conversion terms. The adoption of EITF 05-01 is not expected to have an impact on the Company s results of operations or financial condition.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 ( FIN 48 ).* This interpretation clarifies the application of SFAS 109 by defining a criterion than an individual tax position must meet for any part of the benefit of that position to be recognized in an enterprise s financial statements and also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods and disclosure. FIN 48 is effective for our fiscal year commencing May 1, 2007. At this time, the Company has not completed its review and assessment of the impact of adoption of FIN 48.

In September 2006, the FASB issued FASB No. 157, Fair Value Measurements. FASB No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FASB No. 157 is effective for fiscal years beginning after November 15, 2007. While the Company is currently evaluating the impact of FASB No. 157, the Company does not believe the impact will be material to its results of operations.

In September 2006, the FASB issued FASB No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans-an amendment of FASB No. 87, 88, 106 and 132(R). FASB No. 158 improves financial reporting by requiring an employer to recognize the over funded or under funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. FASB No. 158 is effective as of the fiscal year ending after December 15, 2006. The Company does not believe the impact of FASB No. 158 will be material to its results of operations.

In September 2006, the Securities and Exchange Commission ( SEC ) issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, ( SAB 108 ). SAB 108 provides guidance on the consideration of effects of the prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. The SEC staff believes registrants must quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 is effective for the first annual period ending after November 15, 2006 with early application encouraged. The Company plans to adopt SAB 108 in its fourth fiscal quarter of 2006. The Company is currently evaluating the impact of SAB 108 on its consolidated financial statements.

**Note 8. Industry Segment Information**

SFAS No. 131 Disclosure about Segments of an Enterprise and Related Information requires that the Company disclose certain information about its operating segments 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 two reportable segments that are separate business units that offer different products as follows: antenna manufacturing and cable products. Each segment consists of a single operating unit and the accounting policies of the reporting segments are the same as those described in the summary of significant accounting policies. Intersegment sales and transfers are recorded at cost plus an agreed upon intercompany profit on intersegment sales and transfers. Due to the pending sale of Winncom at September 30, 2006, which is the Distribution segment, distribution is no longer classified as an operating segment but is classified as discontinued operations in the accompanying consolidated financial statements.

Financial information regarding the Company s two continuing operating segments for the three months ended September 30, 2006 and 2005 are as follows:

| | | Manufacturing | Cable | Corporate | Total |
|---|---|---|---|---|---|
| Net Sales | 2006 | $ 1,883,000 | $ 95,000 | $ (141,000) | $ 1,837,000 |
| | 2005 | 1,979,000 | 130,000 | (68,000) | 2,041,000 |
| Net earnings (Loss) from continuing operations | 2006 | (44,000) | (13,000) | (274,000) | (331,000) |
| | 2005 | 400,000 | (7,000) | (255,000) | 138,000 |
| Earnings (Loss) from continuing operations before income taxes | 2006 | (93,000) | (13,000) | (274,000) | (380,000) |
| | 2005 | 421,000 | (7,000) | (255,000) | 159,000 |
| Identifiable Assets | 2006 | 3,990,000 | 142,000 | (837,000) | 3,295,000 |
| | 2005 | 3,411,000 | 214,000 | (956,000) | 2,669,000 |

Financial information regarding the Company s two continuing operating segments for the nine months ended September 30, 2006 and 2005 are as follows:

| | | Manufacturing | Cable | Corporate | Total |
|---|---|---|---|---|---|
| Net Sales | 2006 | $ 5,110,000 | $ 434,000 | $ (334,000) | $ 5,210,000 |
| | 2005 | 4,779,000 | 291,000 | (252,000) | 4,818,000 |
| Net earnings (Loss) from continuing operations | 2006 | (137,000) | | (791,000) | (928,000) |
| | 2005 | 656,000 | (24,000) | (708,000) | (76,000) |
| Earnings (Loss) from continuing operations before income taxes | 2006 | (364,000) | | (791,000) | (1,115,000) |
| | 2005 | 676,000 | (24,000) | (708,000) | (56,000) |
| Identifiable Assets | 2006 | 3,990,000 | 142,000 | (837,000) | 3,295,000 |
| | 2005 | 3,411,000 | 214,000 | (956,000) | 2,669,000 |

Corporate represents the operations of the parent Company, including segment eliminations.

**Note 9. Subsequent Event**

As noted in Note 2, the closing of the sale of Winncom Technologies Corp. was completed on November 1, 2006

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

**Results of Continuing Operations for the Three Months Ended September 30, 2006 and 2005**

Total revenues were $1.84 million and $2.04 million for the three months period ended September 30, 2006 and September 30, 2005, respectively. The decrease in revenues during the three months ended September 30, 2006 compared to the three months ended September 30, 2005 is primarily attributable to 1) a decrease of approximately $164,000 in revenues from one customer for one product line from our Wireless Communications Solutions Division; and 2) a decrease of $40,000 in revenues from our subsidiary, Starworks.

Gross profit margins were 26% and 42% for the three months ended September 30, 2006 and September 30, 2005, respectively. The decrease in gross margin is primarily the result of 1) lower margins at the Wireless Communications Solutions Division due to significant increases in component costs including aluminum, copper and plastic as well as additional labor costs associated with the introduction and manufacturing of several new products and product lines. The Company has taken steps in the third quarter of 2006 to improve its gross margin by shifting production of certain product lines to China through our new subsidiary, ARC Wireless Hong Kong Limited.

Selling, general and administrative expenses (SG&A) increased by $133,000 for the three months ended September 30, 2006 compared to the three months ended September 30, 2005. Approximately $41,000 of the increase was due to increased salaries and wages and $80,000 was due to increased costs (salaries and rent) associated with the organization of ARC Wireless Hong Kong Limited. Other increases in SG&A costs are audit fees, directors fees and outside engineering services. SG&A as a percent of total revenues increased from 33% for the three months ended September 30, 2005 to 44% for the three months ended September 30, 2006. Salaries and wages, including commissions, remain the largest component of SG&A, constituting 55% and 66% of the total SG&A for the three months ended September 30, 2006 and September 30, 2005, respectively.

Net interest expense was $36,000 for the three months ended September 30, 2006 compared to $27,000 for the three months ended September 30, 2005 primarily due to an increase in the average balance outstanding on the line of credit and capital lease obligations and an increase in the prime interest rate from 6.25% for the three months ended September 30, 2005 to 8.25% for the three months ended September 30, 2006.

The Company had a net loss from continuing operations of $331,000 for the three months ended September 30, 2006 as compared to net income from continuing operations of $138,000 for the three months ended September 30, 2005. The decrease in net income is due to (i) revenues decreasing by $204,000 from 2005 to 2006 (ii) a decrease in gross margin from 42% in 2005 to 26% in 2006, and (iii) an increase in SG&A expenses of $133,000. In addition, in 2006, the benefit for income taxes of $49,000 was due to an increase in deferred income tax assets.

**Results of Discontinued Operations for the Three Months Ended September 30, 2006 and September 30, 2005** (See Note 2, Discontinued Operations for the detailed operating results of the discontinued operations)

Winncom had a 63% increase in revenues comparing the three months ended September 30, 2006 to the three months ended September 30, 2005. The increase of nearly $6.6 million is the result of a decrease in its distribution business revenues of approximately $800,000 offset by a $7.4 million increase in its long term contract revenue associated with the Kazakhstan project for which there was no corresponding revenue for the same period in 2005. The margin recognized on the long term construction contract was approximately 6% for the three months ended September 30, 2006. Because the gross margin on the long term contract is lower then the gross margin for normal distribution revenues, the increase in gross margin was only 29% even though revenues increased 63% comparing 2006 to 2005.

Operating expenses increased $355,000 or 35% comparing the three months ended September 30, 2006 to the same period in 2005 due to a $220,000 increase in bad debt expense and the remainder due to an increase in salaries and wages. Operating expenses as a percentage of revenue decreased from 9.6% for the three months ended September 30, 2005 to 8% for the three months ended September 30, 2006.

Interest expense increased from $25,000 for the three months ended September 30, 2005 to $32,000 for the three months ended September 30, 2006. Although the average balance outstanding on revolving lines of credit and other bank debt decreased in 2006 compared to 2005, the prime interest rate increased from 6.25% to 8.25% during the period September 30, 2005 to September 30, 2006 and the interest rate on the foreign bank debt was 13% for the three months ended September 30, 2006, while no such debt existed for the three months ended September 30, 2005.

Other income primarily consists of purchase discounts which were less in 2006 than in 2005 due to a cutback in vendor discounts by one of Winncom s largest vendors.

The benefit for income taxes for the three months ended September 30, 2006 compared to September 30, 2005 is primarily the result of the apportionment of corporate overhead to discontinued operations resulting in lower taxes than previously recorded. The provision for income taxes from discontinued operations in 2005 includes the apportionment of net operating losses from continuing operations.

The increase in the net income from discontinued operations from $102,000 for the three months ended September 30, 2005 to $141,000 for the three months ended September 30, 2006 is primarily due to the increase in revenues and in particular, the increase in the contract revenue.

**Results of Continuing Operations for the Nine Months Ended September 30, 2006 and September 30, 2005**

Total revenues were $5.2 million and $4.8 million for the nine months ended September 30, 2006 and September 30, 2005, respectively. The increase in revenues during the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005 is attributable to 1) an increase in revenues from our Wireless Communications Solutions Division from $4.7 million for the nine months ended September 30, 2005 to $5 million for the nine months ended September 30, 2006; and 2) an increase in revenues from our subsidiary, Starworks, from $291,000 for the nine months ended September 30, 2005 to $434,000 for the nine months ended September 30, 2006. Revenues from the Wireless Communication Solutions Division in the first and second quarter of 2005 were reduced primarily as a result of management s decision to withhold shipments and minimize the Company s risk to a significant customer whose credit privileges were suspended due to delinquent payments. The customer had a recapitalization of its company and shipments were reinstated in the third quarter of 2005.

Gross profit margin was 25% and 41% for the nine months ended September 30, 2006 and 2005, respectively. The decrease in gross margin for the nine months ended September 30, 2006 as compared to the nine months ended September 30, 2005 is primarily the result of 1) lower margins at the Wireless Communications Solutions Division due to significant increases in component costs including aluminum, copper and plastic as well as additional labor costs associated with the introduction and manufacturing of several new products and product lines to a change in product mix, competitive pricing pressures and the costs associated with the introduction and manufacturing of several new products. The Company took steps in the third quarter of 2006 to improve its gross margin by shifting production of certain product lines to China through our new subsidiary, ARC Wireless Hong Kong Limited.

Selling, general and administrative expenses (SG&A) increased by $343,000 for the nine months ended September 30, 2006 compared to September 30, 2005. Approximately $94,000 of the increase is due to increases in salaries and wages, and the remaining increase is due to costs associated with the organization of ARC Wireless Hong Kong Limited, as well as increases in audit fees, directors fees and outside engineering services. SG&A as a percent of total revenues increased from 42% for the nine months ended September 30, 2005 to 45% for the nine months ended September 30, 2006. Salaries and wages, including commissions, remain the largest component of SG&A constituting 57% and 60% of the total SG&A for the nine months ended September 30, 2006 and 2005, respectively.

Net interest expense was $96,000 for the nine months ended September 30, 2006 compared to $99,000 for the nine months ended September 30, 2005. While the average balance outstanding on all lines of credit and capital lease obligations was $1 million for the nine months ended September 30, 2006 compared to $500,000 for the nine months ended September 30, 2005, the interest rate that we were charged in 2006 was nearly half of the interest rate charged for the factoring of trade accounts receivable in 2005, which terminated in May 2005 when we established a new revolving bank line of credit.

Other income for the nine months ended September 30, 2005 included a gain on sale of assets of $61,000. There were no gains in 2006.

The Company had a net loss from continuing operations of $928,000 for the nine months ended September 30, 2006 as compared to a net loss from continuing operations of $76,000 for the nine months ended September 30, 2005. While overall revenues increased by approximately $400,000 from 2005 to 2006, there was a decrease in gross margin from 41% in 2005 to 25% in 2006, an increase in SG&A expenses of $343,000 and a $60,000 decrease in other income. In addition, in 2006, the benefit for income taxes of $227,000 was due to an increase in deferred income tax assets.

**Results of Discontinued Operations for the Nine Months Ended September 30, 2006 and September 30, 2005** (See Note 2, Discontinued Operations for the detailed operating results of the discontinued operations)

Winncom had a 81% increase in revenues comparing the nine months ended September 30, 2006 to the nine months ended September 30, 2005. The increase of nearly $19.3 million is the result of an 8% increase in its distribution business at its historical gross margin of approximately 13% and a $17.5 million increase in its long term contract revenue associated with the Kazakhstan project for which there was no corresponding revenue for the same period in 2005. The margin recognized on the long term construction contract was approximately 7% for the nine months ended September 30, 2006. Because the gross margin on the long term contract is lower then the gross margin for normal distribution revenues, the increase in gross margin was 35%, even though revenues increased 81% from 2005 to 2006.

Operating expenses increased $559,000, or 20% comparing 2006 to 2005, with an increase of $297,000 in bad debt expense and the remainder attributable to increases in salaries and wages. Operating expenses as a percentage of revenue substantially decreased from 12% for the nine months ended September 30, 2005 to 8% for the nine months ended September 30, 2006.

Interest expense increased slightly from $94,000 for the nine months ended September 30, 2005 to $97,000 for the nine months ended September 30, 2006. Although the average balance outstanding on revolving lines of credit and other bank debt decreased from 2005 to 2006, the prime interest rate increased from 6.25% to 8.25%. The interest on the foreign bank debt was 13% for the nine months ended September 30, 2006, and no such debt existed for the nine months ended September 30, 2005.

Other income primarily consists of purchase discounts which were less in 2006 than in 2005 due to a cutback in vendor discounts by one of Winncom s largest vendors.

The increase in the provision for income taxes for the nine months ended September 30, 2006 compared to September 30, 2005 is primarily the result of an increase in net income before taxes. The provision for income taxes in 2005 includes an apportionment of net operating losses from continuing operations for which there was none in 2006.

The increase in the net income from discontinued operations from $423,000 for the nine months ended September 30, 2005 to $818,000 for the nine months ended September 30, 2006 is primarily due to the increase in revenues and in particular, the increase in the contract revenue.

**Financial Condition**

The net cash used in operating activities from continuing operations was $549,000 for the nine months ended September 30, 2006 compared to $65,000 for the nine months ended September 30, 2005. The net cash used in operating activities from continuing operations in 2006 was primarily due to the net loss incurred for the nine months ended September 30, 2006. The net cash used in continuing operations during 2005 was primarily due to a decrease in trade accounts receivables and inventory offset by decreases in trade accounts payable and other accrued expenses. In addition, in determining net cash from continuing operations, the net loss in each of 2006 and 2005 is partially offset by noncash deductions of depreciation and the expense associated with the issuance of common stock and common stock options. Net cash provided by discontinued operations is the result of (i) net income from discontinued operations and (ii) an increase in deferred contract revenue.

The net cash used in investing activities from continuing operations was $86,000 for the nine months ended September 30, 2006 compared to $78,000 for the nine months ended September 30, 2005, primarily the result of expenditures for patents and equipment. The net cash used in investing activities from discontinued operations was $58,000 for the nine months ended September 30, 2006 compared to $26,000 for the nine months ended September 30, 2005, primarily the result of expenditures for equipment.

For the nine months ended September 30, 2006, the Company was able to draw upon its line of credit by nearly $632,000, resulting in the net cash provided by financing activities from continuing operations. For the nine months ended September 30, 2005 the Company was able to draw upon its line of credit by nearly $200,000, resulting in the net cash provided by financing activities from continuing operations. The draws on the lines of credit in 2006 and 2005 helped fund operating losses from continuing operations. Net income from discontinued operations help reduce bank lines of credit of the discontinued operations.

The Company s working capital at September 30, 2006, excluding net assets and liabilities from discontinued operations, was $318,000 compared to $1.2 million at December 31, 2005. The decrease as of September 30, 2006 is primarily due to the net loss from continuing operations.

The Company entered into a financing agreement (the WFBC Facility ) with Wells Fargo Business Credit, Inc. ( WFBC ), on December 9, 2003. The financing agreement was for a term of one year and was renewable for additional one-year terms. The WFBC Facility provided for the sale of accounts receivable by the Company to WFBC at a 1% discount for the first 15 days and an additional ..055 of 1% per day until the account receivable is paid in full. Sales of accounts receivable and advances under the WFBC Facility were subject to conditions and restrictions, including, without limitation, accounts receivable eligibility restrictions, verification, and approval. Obligations under the WFBC Facility were collateralized by substantially all of the assets of the Company. Advances under the WFBC Facility were made at the sole discretion of WFBC, even if the accounts receivable offered by ARC for sale to WFBC satisfied all necessary conditions and restrictions. WFBC was under no obligation to purchase accounts receivable from the Company or to advance any funds or credit to the Company under the WFBC Facility. This financing agreement was terminated on May 10, 2005.

On May 10, 2005, the Company entered into a new $1.5 million revolving line-of-credit agreement (the Credit Facility ) with Citywide Banks. The new Credit Facility has an annual maturity, that is currently due May 10, 2007, with interest at 1.75% over prime (10% at September 30, 2006), contains covenants to maintain certain financial statement ratios, and is collateralized by essentially all of the assets of ARC and its wholly owned subsidiary, Starworks, but excluding Winncom. The borrowing base is calculated on a percentage of trade accounts receivable and inventory for ARC and Starworks combined. As of September 30, 2006 and December 31, 2005, we were in compliance with these covenants. The balance outstanding on the revolving line of credit was $1,186,000 at September 30, 2006 and at December 31, 2005 it was $554,000.

Effective October 31, 2006 the Company completed the sale of Winncom.. In connection with the sale, we received $17,000,000 in cash on November 1, 2006. Management believes that the proceeds from the sale of Winncom, current working capital and available borrowings on existing bank lines of credit will be sufficient to allow the Company to maintain its operations through December 31, 2006 and into the foreseeable future.

**Forward-Looking Statements**

This Quarterly Report on Form 10-Q includes 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. All statements other than statements of historical fact included in this Quarterly Report, including Item 2: Management s Discussion and Analysis of Financial Condition and Results of Operation , regarding our financial position, business strategy, plans and objectives of our management for future operations and capital expenditures, and other matters, other than historical facts, are forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements and the assumptions upon which the forward-looking statements are based are reasonable, we can give no assurance that such expectations will prove to have been correct.

Additional statements concerning important factors that could cause actual results to differ materially from our expectations were disclosed in Item 1A, Risk Factors on our Form 10-K for the year ended December 31, 2005. There have been no material changes to the Company s risk factors from those disclosed in the Company s 2005 Annual Report on Form 10-K. The words believe , may , will , when , estimate , continu anticipate , intend , expect and similar expressions, as they relate to ARC Wireless, our business or our management, are intended to identify forward-looking statements. All written and oral forward-looking statements attributable to us or persons acting on our behalf subsequent to the date of this Quarterly Report are expressly qualified in their entirety by the Risk Factors set forth in our Form 10-K.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We have not used derivative financial instruments.

We are exposed to market risk through variable interest rates related to our notes payable to the banks, each of which has a variable interest rate equal to the existing bank prime rate (8.25% as of September 30, 2006) plus 1.75%. The prime interest rate increased from 7% to 8.25% between December 31, 2005 and September 30, 2006. An increase in the bank s prime interest rates on the various notes payable by 1% would increase our yearly interest expense by approximately $10,000, assuming borrowed amounts remain outstanding at the average balance for the nine months ended September 30, 2006. Management believes that fluctuation in interest rates in the near term will not materially affect our consolidated operating results, financial position or cash flow.

**Item 4. Controls and Procedures**

The Company maintains a set of disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports filed by the Company under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. As of the end of the quarterly period covered by this report, the Company carried out an evaluation, under the supervision of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

There have been no significant changes in the Company s internal controls or other factors that could significantly affect those controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

## PART II. OTHER INFORMATION

**Item 1. Legal Proceedings**

The Company and its subsidiaries are involved in various legal proceedings of a nature considered normal in the course of its operations. These are principally accounts receivable collections. While it is not feasible to predict or determine the final outcome of these proceedings, management has reserved as an allowance for doubtful accounts that portion of the accounts receivable it estimates will be uncollectible.

**Item 1A. Risk Factors**

Additional statements concerning important factors that could cause actual results to differ materially from our expectations were disclosed in Item 1A, Risk Factors of our Form 10-K for the fiscal year ending December 31, 2005. There have been no material changes from the risk factors previously disclosed in our Form 10-K for the fiscal year ended December 31, 2005.

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

On March 15, 2005, the Company recorded the issuance of 3,332 shares of common stock to directors for accrued directors fees in the amount of $500. These shares were issued pursuant to exemptions from registration set forth in Section 4(2) of the Securities Act of 1933, as amended, and Regulation D promulgated thereunder.

In each of May and July 2006, the Company recorded the issuance of 29,629 shares of common stock to a director, resulting in total issuances of 59,258 shares for outstanding obligations for accrued directors fees in the aggregate amount of $8,000. These shares were issued pursuant to exemptions from registration set forth in Section 4(2) of the Securities Act of 1933, as amended, and Regulation D promulgated thereunder.

**Item 4. Submission of Matters to a Vote of Security Holders**

The Company held its annual meeting of shareholders on October 31, 2006 and 143,629,267 shares were represented at the meeting. The following are the results of the voting on matters submitted to the shareholders, all of which were approved:

(1) For election of the following nominees as directors:

| Name | Number of Shares For | Withheld |
|---|---|---|
| Sigmund A. Balaban | 142,875,820 | 753,447 |
| Donald A. Huebner | 142,149,783 | 1,479,484 |
| Randall P. Marx | 140,662,759 | 2,966,508 |
| Robert E. Wade | 142,865,270 | 763,997 |

(2) Proposal to approve of the sale of the Company s subsidiary Winncom technologies Corp.

Number of Shares:
87,461,024 (For) 8,508,413 (Against) 253,685 (Abstain) 47,406,145(Not Voting)

(3) Proposal to ratify the selection of HEIN + Associates, LLP as the Company s independent registered public accounting firm.

143,179,604(For) 175,803(Against) 273,860(Abstain) 0(Not Voting)

(4) Proposed recommendation by the Board Of Directors to authorize the Board Of Directors to determine whether to effect a reverse stock split of our outstanding Common Stock at the time and at the ratio between 1 for 20 and 1 for 50 that the Board of Directors deems appropriate.

Number of Shares:
128,456,336 (For) 15,102,640 (Against) 70,291 (Abstain) 0(Not Voting)

(5) In their discretion, the Proxies as authorized to vote upon such as other business as may properly come before the meeting.

Number of Shares:
134,463,140 (For) 7,733,392 (Against) 1,432,735 (Abstain) 0(Not Voting)

Item 6. Exhibits

Exhibit No. **Description**

3.1a Articles of Incorporation of Westcliff Corporation, now known as Antennas America, Inc. (the Company ), are incorporated herein by reference from the Company s Form S-18 Registration Statement dated December 1, 1987 (File No. 33-18854-D).

3.1b Articles of Amendment of the Company dated January 26, 1988 are incorporated herein by reference from the Company s Post-Effective Amendment No. 3 to Form S-18 Registration Statement dated December 5, 1989 (File No. 33-18854-D).

3.1c Articles and Agreement of Merger between the Company and Antennas America, Inc., a Colorado corporation, dated March 22, 1989, are incorporated herein by reference from the Company s Post-Effective Amendment No. 3 to Form S-18 Registration Statement dated December 5, 1989 (File No. 33-18854-D).

| Exhibit No. | Description |
|---|---|
| 3.1d | 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). |
| 10.1 | Stock Purchase Agreement, dated July 28, 2006, between ARC Wireless Solutions, Inc. and Blucoral Limited (3). |
| 31.1 | Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the 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 Current Report on Form 8-K on July 28, 2006.

**SIGNATURE**

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

Date: November 13, 2006

ARC WIRELESS SOLUTIONS, INC.

By: /s/ Randall P. Marx
Randall P. MarxChief
Executive Officer

Date: November 13, 2006

By: /s/ Monty R. Lamirato
Monty R. Lamirato
Chief Financial Officer

## EXHIBIT INDEX

| Exhibit No. | Description |
|---|---|
| 3.1a | Articles of Incorporation of Westcliff Corporation, now known as Antennas America, Inc. (the Company ), are incorporated herein by reference from the Company s Form S-18 Registration Statement dated December 1, 1987 (File No. 33-18854-D). |
| 3.1b | Articles of Amendment of the Company dated January 26, 1988 are incorporated herein by reference from the Company s Post-Effective Amendment No. 3 to Form S-18 Registration Statement dated December 5, 1989 (File No. 33-18854-D). |
| 3.1c | Articles and Agreement of Merger between the Company and Antennas America, Inc., a Colorado corporation, dated March 22, 1989, are incorporated herein by reference from the Company s Post-Effective Amendment No. 3 to Form S-18 Registration Statement dated December 5, 1989 (File No. 33-18854-D). |
| 3.1d | 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). |
| 10.1 | Stock Purchase Agreement, dated July 28, 2006, between ARC Wireless Solutions, Inc. and Blucoral Limited (3). |
| 31.1 | Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the 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 Current Report on Form 8-K on July 28, 2006.

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**EXHIBIT 31.1**

## CERTIFICATIONS

I, Randall P. Marx, certify that:

1. I have reviewed this Form 10-Q of ARC Wireless Solutions, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant s internal control over financial reporting that occurred during the registrant s most recent fiscal quarter (the registrant s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting;

5. The registrant s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant s auditors and the audit committee of the registrant s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal control over financial reporting.

Date: November 13, 2006

/s/ Randall P. Marx
Randall P. Marx, Chief Executive Officer

**EXHIBIT 31.2**

**CERTIFICATIONS**

I, Monty R. Lamirato, certify that:

1. I have reviewed this Form 10-Q of ARC Wireless Solutions, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4.

The registrant s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant s internal control over financial reporting that occurred during the registrant s most recent fiscal quarter (the registrant s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting;

5. The registrant s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant s auditors and the audit committee of the registrant s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal control over financial reporting.

Date: November 13, 2006

/s/ Monty R. Lamirato
Monty R. Lamirato, Chief Financial Officer

**EXHIBIT 32.1**

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

In connection with the Quarterly Report on Form 10-Q (the Report ) of ARC Wireless Solutions, Inc. (the Company ) for the quarter ended September 30, 2006, each of the undersigned Randall P. Marx, the Chief Executive Officer of the Company, and Monty R. Lamirato, the Chief Financial Officer of the Company, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of the undersigneds knowledge and belief:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 13, 2006

/s/ Randall P. Marx
Randall P. Marx
Chief Executive Officer

Dated: November 13, 2006

/s/ Monty R. Lamirato
Monty R. Lamirato Chief Financial Officer