

ARC WIRELESS SOLUTIONS INC
Form 10-Q
November 12, 2010

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 September 30, 2010

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
(State or other jurisdiction of incorporation)

87-0454148
(IRS Employer Identification Number)

6330 North Washington Street, Unit 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

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

Edgar Filing: ARC WIRELESS SOLUTIONS INC - Form 10-Q

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 November 10, 2010, the Registrant had 3,091,000 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, 2010

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1.	Financial Statements	
	Condensed Consolidated Balance Sheets as of September 30, 2010 (unaudited) and December 31, 2009	3
	Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2010 and 2009 (unaudited)	4
	Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2010 and 2009 (unaudited)	5
	Notes to Condensed Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Item 4.	Controls and Procedures	16

PART II. OTHER INFORMATION

Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	17
Item 4.	Submission of Matters to a Vote of Security Holders	17
Item 6.	Exhibits	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)
(unaudited)

	September 30, 2010	December 31, 2009
		*
Assets		
Current assets:		
Cash and equivalents	\$11,346	\$11,785
Accounts receivable – trade, net	388	476
Inventory, net	766	1,019
Other current assets	20	36
Total current assets	12,520	13,316
Property and equipment, net	280	358
Other assets:		
Intangible assets, net	121	122
Deposits	65	52
Total assets	\$12,986	\$13,848
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$349	\$504
Accrued expenses	342	518
Current portion of capital lease obligations	94	110
Total current liabilities	785	1,132
Capital lease obligations, less current portion	-	13
Total liabilities	785	1,145
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 2010 and 2009, respectively.	2	2
Additional paid-in capital	20,790	20,767
Accumulated deficit	(8,591)	(8,066)
Total stockholders' equity	12,201	12,703
Total liabilities and stockholders' equity	\$12,986	\$13,848

* These numbers were derived from the audited financial statements for the year ended December 31, 2009. See accompanying notes.

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

	Three Months Ended September		Nine Months Ended September	
	2010	30, 2009	2010	30, 2009
Sales, net	\$ 968	\$ 1,089	\$ 3,053	\$ 3,403
Cost of sales	595	800	2,033	2,157
Gross profit	373	289	1,020	1,246
Operating expenses:				
Selling, general and administrative expenses	441	513	1,577	1,786
Loss from continuing operations	(68)	(224)	(557)	(540)
Other income:				
Interest expense	(1)	(1)	(3)	(9)
Other income	13	15	35	63
Total other income	12	14	32	54
Loss from continuing operations before income taxes	(56)	(210)	(525)	(486)
Loss from continuing operations	(56)	(210)	(525)	(486)
Gain (Loss) from discontinued operations	-	10	-	(4)
Net loss	\$ (56)	\$ (200)	\$ (525)	\$ (490)
Net loss per share – continuing operations – Basic and Diluted	\$ (0.02)	\$ (0.07)	\$ (0.17)	\$ (0.16)
Net loss per share – discontinued operations – Basic and Diluted	\$ -	\$ -	\$ -	\$ -
Net loss per share – Basic and Diluted	\$ (0.02)	\$ (0.07)	\$ (0.17)	\$ (0.16)
Weighted average shares – Basic and 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)

	Nine Months Ended September 30,	
	2010	2009
Operating activities		
Loss from continuing operations	\$ (525)	\$ (486)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Depreciation and amortization	154	180
Non-cash expense for issuance of stock and options	24	24
Changes in operating assets and liabilities:		
Accounts receivable, trade	88	338
Inventory	252	(61)
Prepays and other current assets	16	(14)
Other assets	(13)	(22)
Accounts payable and accrued expenses	(360)	(737)
Net cash used in continuing operations	(364)	(778)
Net cash provided by discontinued operations	-	3
Net cash used in operating activities	(364)	(775)
Investing activities		
Patent acquisition costs	(10)	(10)
Purchase of plant and equipment	(83)	(110)
Proceeds from sale of plant and equipment	18	-
Net cash used in investing activities, continuing operations	(75)	(120)
Net cash used in investing activities, discontinued operations	-	-
Net cash used in investing activities	(75)	(120)
Financing activities		
Net repayment of line of credit and capital lease obligations	-	(33)
Net cash used in financing activities, continuing operations	-	(33)
Net cash used in financing activities, discontinued operations	-	-
Net cash used in financing activities	-	(33)
Net decrease in cash and cash equivalents	(439)	(928)
Cash and cash equivalents, beginning of period	11,785	12,943
Cash and cash equivalents, end of period	\$ 11,346	\$ 12,015
Supplemental cash flow information:		
Cash paid for interest, continuing operations	\$ -	\$ 9

See accompanying notes.

ARC Wireless Solutions, Inc.
Notes to Condensed Consolidated Financial Statements
September 30, 2010

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 September 30, 2010, the results of its operation for the three and nine months then ended, and its cash flows for the nine 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, 2009.

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 and nine months ended September 30, 2010 are not necessarily indicative of the results to be expected for the full year or any future period.

Principles of Consolidation

The accompanying consolidated condensed financial statements include the accounts of ARC Wireless Solutions, Inc. ("ARC"), and its wholly-owned subsidiary corporations. In 2008, management determined it was no longer profitable to operate one of its wholly-owned subsidiaries, Starworks Wireless, Inc. ("Starworks") and operations were terminated, therefore, Starworks has been accounted for as a discontinued operation for all periods presented. See Note 2 – Discontinued Operations for further discussion.

During the third quarter of 2010, the Company streamlined its operations by transitioning the manufacturing of ARC product to Rainbow Industrial Limited ("RIL"). The main purpose for this transition was to help simplify its manufacturing accounting procedures and therefore reduce the amount of work surrounding it. See Note 6 – Related Party Transactions for further discussion. All material intercompany accounts, transactions, and profits have been eliminated in consolidation.

Basis of Presentation

The Company has experienced recurring losses and has accumulated a deficit of approximately \$8.6 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 December 31, 2010 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

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. From time to time, the Company has cash balances in excess of federally insured amounts. The Company maintains its cash balances with several financial institutions. As of September 30, 2010, the Company's total cash balance exceeded the Federal Deposit Insurance Corporation limitation for coverage of \$250,000 by approximately \$10.6 million. The Company reduces its exposure to credit risk by maintaining such balances with financial institutions that have high credit ratings.

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 allowance for doubtful accounts was \$3 thousand at December 31, 2009, and no provision was deemed necessary at September 30, 2010. There was no bad debt expense for both the three and nine months ended September 30, 2010 and 2009.

Income Taxes

The Company accounts for income taxes using 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.

We recognize liabilities for uncertain income tax provisions, if needed. Tax positions must meet a "more-likely-than-not" recognition threshold at the effective date to be recognized. During the three and nine months ended September 30, 2010 and 2009, 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 September 30, 2010 and December 31, 2009. 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. Discontinued Operations

In 2008, the Company determined it was no longer profitable to operate Starworks, and operations were terminated. As a result, Starworks has been accounted for as a discontinued operation for all periods presented, and the results of operations have been excluded from continuing operations in the accompanying consolidated condensed financial statements of operations and cash flows for all periods presented.

There was no financial activity from discontinued operations for the three and nine months ended September 30, 2010. Information related to the discontinued operations for the three and nine months ended September 30, 2009 is immaterial to the financials in total.

Note 3. Share-Based Compensation

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		Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Stock options	\$8	\$ 8	\$24	\$ 24
Total share-based compensation expense	\$8	\$ 8	\$24	\$ 24

The Company had 40,000 options outstanding at January 1, 2010, with a weighted-average exercise price of \$5.40. There were no options granted, exercised, forfeited or expired from January 1, 2010 to September 30, 2010.

The following table presents information regarding options outstanding and exercisable as of September 30, 2010:

Weighted average contractual remaining term - options outstanding	6.98 years
Aggregate intrinsic value - options outstanding	-
Options exercisable	24,000