

ARC WIRELESS SOLUTIONS INC
Form 10-Q
May 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 March 31, 2011

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, 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

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

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

(§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 X

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 [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 May 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

March 31, 2011

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheets as of March 31, 2011 (unaudited)
and December 31, 2010 3

Condensed Consolidated Statements of Operations for the Three Months Ended
March 31, 2011 and 2010 (unaudited) 4

Condensed Consolidated Statements of Cash Flows for the Three Months Ended
March 31, 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 4. Controls and Procedures 14

PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 14

Item 4. Submission of Matters to a Vote of Security Holders 14

Item 6. Exhibits 15

SIGNATURES 16

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2011 (unaudited)	December 31, 2010 *
Assets		
Current assets:		
Cash and equivalents	\$ 11,314	\$ 11,643
Accounts receivable – trade, net	395	385
Inventory, net	427	548
Other current assets	52	29
Total current assets	12,188	12,605
Property and equipment, net	260	272
Other assets:		
Intangible assets, net	117	114
Deposits	6	2
Total assets	\$ 12,571	\$ 12,993
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 172	\$ 212
Accrued expenses	127	404
Current portion of capital lease obligations	95	95
Total current liabilities	394	711
Capital lease obligations, less current portion	-	-
Total liabilities	394	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	20,806	20,798
Accumulated deficit	(8,631)	(8,518)
Total stockholders' equity	12,177	12,282
Total liabilities and stockholders' equity	\$ 12,571	\$ 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 Month Ended March 31,	
	2011	2010
Sales, net	\$823	\$1,142
Cost of sales	579	845
Gross Profit	244	297
Operating expenses		
Selling, general and administrative	367	572
Loss from operations	(123)	(275)
Other Income (expense)		
Interest expense	-	(1)
Other income	10	11
Total other income	10	10
Net loss	\$(113)	\$(265)
Net loss per share, basic and diluted	\$(.04)	\$(.09)
Weighted average shares, basic	3,091,000	3,091,000
Weighted average shares, diluted	3,091,000	3,091,000

See accompanying notes.

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

	Three Months Ended March 31,	
	2011	2010
Operating activities		
Net loss from operations	\$(113)	\$(265)
Adjustments to reconcile net loss from operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	42	48
Non-cash stock compensation	8	8
Provision for doubtful accounts		
Changes in operating assets and liabilities:		
Accounts receivable, trade	(10)	(51)
Inventory	121	71
Prepays and other current assets	(23)	(13)
Other assets	(4)	(74)
Accounts payable and accrued expenses	(317)	(48)
Net cash used in operating activities	(296)	(324)
Investing activities		
Patent acquisition costs	(6)	(2)
Purchase of plant and equipment	(27)	(53)
Net cash used in investing activities	(33)	(55)
Financing activities		
Net advances from line of credit	-	-
Net repayment of line of credit and capital lease obligations	-	-
Net cash used in financing activities		-
Net decrease in cash	(329)	(379)
Cash and cash equivalents, beginning of year	11,643	11,785
Cash and cash equivalents, end of quarter	\$11,314	\$11,406

See accompanying notes.

ARC Wireless Solutions, Inc.
Notes to Condensed Consolidated Financial Statements
March 31, 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 March 31, 2011, the results of its operation and its cash flows for the three 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 ended March 31, 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 RIL during the third quarter of 2010

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, 2011 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. No provision for doubtful accounts was deemed necessary at December 31, 2010 and March 31, 2010. There was no bad debt expense for both the three months ended March 31, 2011 and 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 ended March 31, 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 March 31, 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	
	March 31, 2011	March 31, 2010
Stock options	\$8	\$8
Total share-based compensation expense	\$8	\$8

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 March 31, 2011	40,000	\$5.40

The following table presents information regarding options outstanding and exercisable as of March 31, 2011:

Weighted average contractual remaining term - options outstanding	6.48 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	6.48 years

There were no options granted or exercised during the three months ended March 31, 2011.

As of March 31, 2011, future compensation costs related to nonvested stock options was \$24 thousand. Management anticipates that this cost will be recognized over a weighted average period of three years.

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 March 31,					
	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	\$(113)	3,091	\$(.04)	\$(265)	3,091	\$(.09)
Effect of Dilutive Securities						
Employee stock options	-	-	-	-	-	-
Diluted loss per share	\$(113)	3,091	\$(.04)	\$(265)	3,091	\$(.09)

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 March 31, 2011 and December 31, 2010, the inventory reserve was \$65 and \$64 thousand, respectively. Inventory consists of the following amounts (in thousands):

	March 31, 2011	December 31, 2010
Raw materials	\$45	\$58
Work in progress	-	-
Finished goods	447	554
Subtotal	492	612
Inventory reserve	(65)	(64)
Net inventory	\$427	\$548

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 \$62 thousand of the 2011 annual fee was accrued for the three months ended March 31, 2011 and is also included in accrued liabilities at March 31, 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 valued at approximately \$200 thousand per month; however the actual dollar amount can vary significantly with normal fluctuations in business activity

Note 6. Recent Accounting Pronouncements

In January 2010, the FASB issued an amendment to the accounting standards related to the disclosures about an entity’s use of fair value measurements. Among these amendments, entities are required to provide separate disclosures about purchases, sales, issuances and settlements relating to the tabular reconciliation of beginning and ending balances of the Level 3 (fair value determined based on significant unobservable inputs) classification and provide greater disaggregation for each class of assets and liabilities that use fair value measurements. The requirement to provide the enhanced disclosures for Level 3 fair value measurements is effective for the Company for interim and annual reporting periods beginning after December 31, 2010. The Company does not expect that the adoption of these new disclosure requirements will have a material impact on its consolidated financial statements.

In December 2010, the FASB issued an amendment to the accounting standards related to goodwill which (1) modifies step one of the goodwill impairment test by requiring entities with reporting units that have a zero or negative carrying value to assess, whether it is more likely than not that a goodwill impairment exists and (2) does not prescribe a specific method of calculating the carrying value of a reporting unit in the performance of step one of the goodwill impairment test. Under the requirements of this standard, if the entity concludes that it is more likely than not that a goodwill impairment exists, the entity must perform step two of the goodwill impairment test. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment exists. This standard will become effective for the Company on January 1, 2011 and is not expected to have a material impact on the Company’s consolidated financial statements.

In December 2010, the FASB issued an amendment related to the accounting for business combinations to address diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. This standard will become effective for the Company on January 1, 2011 and is not expected to have a material impact on the Company’s consolidated financial statements.

Note 8. Concentration of Credit Risk

One customer accounted for approximately 33% and 20% of the Company’s net sales for the three months ended March 31, 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 March 31, 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 March 31, 2011, we had approximately \$11.8 million in working capital, which represents a decrease of approximately \$100 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.

Management believes that current working capital will be sufficient to allow us to maintain our operations through December 31, 2011 and into the foreseeable future.

12

Results of Continuing Operations for the Three Months Ended March 31, 2011 and 2010

Total revenues were approximately \$823 thousand for the three months ended March 31, 2011 and \$1.1 million for the three months ended March 31, 2010. The decrease in revenues during the three months ended March 31, 2011 compared to the three months ended March 31, 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 29% and 26% for the three months ended March 31, 2011 and 2010, respectively. The increase in gross margin is primarily due to our focus on cutting our operational costs.

Selling, general and administrative expenses (SG&A) decreased 36% to \$367 thousand for the quarter ended March 31, 2011 as compared to \$572 thousand for the quarter ended March 31, 2010. SG&A as a percent of total revenues decreased from 50% for the three months ended March 31, 2010 to 44% for the three months ended March 31, 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 March 31, 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 first quarter 2011 to approximately \$10 thousand as compared to \$11 thousand in the first 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 March 31, 2011 and 2010 due to our net losses for both periods.

Financial Condition (in thousands of dollars)

	March 31, 2011	December 31, 2010
Current ratio (1)	30.93 to 1	17.72 to 1
Working capital (2)	\$11,794	\$11,894
Total debt	\$394	\$711
Total cash less debt	\$10,920	\$10,932
Stockholders equity	\$12,177	\$12,282
Total liabilities to equity	.03 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 \$11.3 million at March 31, 2011 and hold no debt outstanding. We believe that we have the ability to provide for our remaining 2011 operational needs through projected operating cash flow and cash on hand.

The net cash used by operating activities was \$296 thousand for the three months ended March 31, 2011 compared to net cash used by operating activities of \$324 thousand for the three months ended March 31, 2010. The primary reason for the change is a reduction in the net loss from operations of \$152 thousand comparing the quarter ended March 31, 2011 to the quarter ended March 31, 2010.

The net cash used in investing activities from continuing operations was \$33 thousand for the three months ended March 31, 2011 compared to \$55 thousand for the three months ended March 31, 2010, primarily the result of capital expenditures for molds and machinery.

We had no cash flows related to financing activities for the three months ended March 31, 2011 and 2010.

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 have been no significant changes in the Company's internal control over financial reporting identified in connection with the evaluation discussed above that occurred during the period ended March 31, 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 4. Submission of Matters to a Vote of Security Holders

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: May 12, 2011

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

Date: May 12, 2011

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