

ARC WIRELESS SOLUTIONS INC
Form 10-Q
November 14, 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 September 30, 2011

OR

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

For the transition period from _____ to _____

000-18122
(Commission File Number)

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

Utah
(State or other jurisdiction of
incorporation)

87-0454148
(IRS Employer Identification Number)

6330 North Washington Street, Suite 13
Denver, Colorado, 80216-1146
(Address of principal executive offices including zip code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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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 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

September 30, 2011

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2011 (unaudited)	December 31, 2010 *
Assets		
Current assets:		
Cash and equivalents	\$ 11,176	\$ 11,643
Accounts receivable – trade, net	184	385
Inventory, net	529	548
Other current assets	22	29
Total current assets	11,911	12,605
Property and equipment, net	226	272
Other assets:		
Intangible assets, net	117	114
Deposits	6	2
Total assets	\$ 12,260	\$ 12,993
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 99	\$ 212
Accrued expenses	262	404
Current portion of capital lease obligations	66	95
Total current liabilities	427	711
Capital lease obligations, less current portion	-	-
Total liabilities	427	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	20,822	20,798
Accumulated deficit	(8,991)	(8,518)
Total stockholders' equity	11,833	12,282
Total liabilities and stockholders' equity	\$ 12,260	\$ 12,993

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

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Sales, net	\$629	\$968	\$2,306	\$3,053
Cost of sales	383	595	1,520	2,033
Gross Profit	246	373	786	1,020
Operating expenses				
Selling, general and administrative	482	441	1,289	1,577
Loss from operations	(236)	(68)	(503)	(557)
Other Income (expense)				
Interest expense	-	(1)	-	(3)
Other income	10	13	30	35
Total other income	10	12	30	32
Net loss	\$(226)	\$(56)	\$(473)	\$(525)
Net loss per share, basic and diluted	\$(.07)	\$(.02)	\$(.15)	\$(.17)
Weighted average shares, basic	3,091,000	3,091,000	3,091,000	3,091,000
Weighted average shares, diluted	3,091,000	3,091,000	3,091,000	3,091,000

See accompanying notes.

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

	Nine Months Ended September 30,	
	2011	2010
Operating activities		
Net loss from operations	\$(473)	\$(525)
Adjustments to reconcile net loss from operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	142	154
Non-cash stock compensation	24	24
Provision for doubtful accounts	5	-
Changes in operating assets and liabilities:		
Accounts receivable, trade	196	88
Inventory	19	252
Prepays and other current assets	7	16
Other assets	(4)	(13)
Accounts payable and accrued expenses	(255)	(360)
Net cash used in operating activities	(339)	(364)
Investing activities		
Patent acquisition costs	(12)	(10)
Purchase of plant and equipment	(87)	(83)
Proceeds from sale of plant and equipment	-	18
Net cash used in investing activities	(99)	(75)
Financing activities		
Net repayment of line of credit and capital lease obligations	(29)	-
Net cash used in financing activities	(29)	-
Net decrease in cash	(467)	(439)
Cash and cash equivalents, beginning of year	11,643	11,785
Cash and cash equivalents, end of quarter	\$11,176	\$11,346

See accompanying notes.

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

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, the accompanying unaudited consolidated condensed financial statements contain all of the normal recurring adjustments necessary to present fairly the financial position of the Company as of September 30, 2011, the results of its operation and its cash flows for the three months and 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, 2010.

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

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

Principles of Consolidation

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

Basis of Presentation

The Company has experienced recurring losses and has accumulated a deficit of approximately \$9 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 September 30, 2012 and into the foreseeable future.

Use of Estimates

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

Cash and Cash Equivalents

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

Fair Value of Financial Instruments

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

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

Accounts Receivable

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

Income Taxes

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

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

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

Reclassifications

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

Note 2. Share-Based Compensation

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

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

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

	Three Months Ended		Nine Month Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Stock options	\$ 8	\$ 8	\$ 24	\$ 24
Total share-based compensation expense	\$ 8	\$ 8	\$ 24	\$ 24

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	(40,000)	\$ (5.40)
Balance at September 30, 2011	-	-

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

Weighted average contractual remaining term - options outstanding	-
Aggregate intrinsic value - options outstanding	-
Options exercisable	-
Weighted average exercise price – options exercisable	-
Aggregate intrinsic value - options exercisable	-
Weighted average contractual remaining term - options exercisable	-

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

As of September 30, 2011, there was no future compensation costs related to nonvested stock options.

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.

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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 September 30,				Per Share Loss
	2011		2010		
	Net Loss Attributed to Common Stock	Weighted Average Shares	Net Loss Attributed to Common Stock	Weighted Average Shares	Per Share Loss
Basic EPS:					
Net Loss	\$(226)	3,09			