ARC WIRELESS SOLUTIONS INC
Form 10-Q
May 15, 2007

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 March 31, 2007

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)	(IRS 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, 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 [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 May 1, 2007, the Registrant had 3,088,741 shares outstanding of its $.0005 par value common stock.

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ARC Wireless Solutions, Inc.

Quarterly Report on FORM 10-Q For The Period Ended

March 31, 2007

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

ARC Wireless Solutions, Inc.
Condensed Consolidated Balance Sheets

	March 31, 2007 (unaudited)	December 31, 2006 (audited) *
Assets		
Current assets:		
Cash and equivalents	$ 15,229,000	$ 15,720,000
Accounts receivable - trade, net	864,000	620,000
Inventory, net	818,000	788,000
Other current assets	498,000	416,000
Total current assets	17,409,000	17,544,000

Property and equipment, net	286,000	297,000
Other assets:		
Intangible assets, net	97,000	98,000
Deposits	35,000	36,000
Total assets	$ 17,827,000	$ 17,975,000
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 964,000	$ 790,000
Bank debt - current	831,000	830,000
Accrued expenses	187,000	213,000
Current portion of capital lease obligations	32,000	32,000
Total current liabilities	2,014,000	1,865,000
Capital lease obligations, less current portion	11,000	23,000
Total liabilities	2,025,000	1,888,000
Commitments (Notes 8 and 10)		
Stockholders' equity:		
Preferred stock, $001 par value, 2,000,000 authorized, none issued and outstanding	--	--
Common stock, $.0005 par value, 250,000,000 authorized, 3,088,000 and 3,126,000 issued in 2007 and 2006, respectively	2,000	2,000
Additional paid-in capital	20,673,000	21,855,000
Treasury stock, at cost, 39,000 shares in 2006	--	(1,195,000)
Accumulated deficit	(4,873,000)	(4,575,000)
Total stockholders' equity	15,802,000	16,087,000
Total liabilities and stockholders' equity	$ 17,827,000	$ 17,975,000

* These numbers were derived from the audited financial statements for the year ended December 31, 2006 and adjusted for discontinued operations. See accompanying notes.

ARC Wireless Solutions, Inc.
Condensed Consolidated Statements of Operations

	Three Months Ended March 31, 2007	2006
	(unaudited)	
Sales, net	$ 1,581,000	$ 1,549,000
Cost of sales	1,170,000	1,129,000
Gross profit	411,000	420,000

Operating expenses:		
Selling, general and administrative expenses	868,000	726,000
Loss from operations	(457,000)	(306,000)
Other income (expense):		
Interest expense, net	(6,000)	(27,000)
Other income	165,000	--
Total other income (expense)	159,000	(27,000)
Loss from continuing operations before income taxes	(298,000)	(333,000)
Benefit for income taxes	--	54,000
Loss from continuing operations	(298,000)	(279,000)
Discontinued Operations (Note 2)		
Income from operations of the discontinued component	--	322,000
Provision for income taxes, discontinued component	--	(13,000)
Net income (loss)	$ (298,000)	$ 30,000
Net income (loss) per share - continuing operations - basic and diluted	$ (.10)	$ (.09)
Net income per share - discontinued operations - basic and diluted	--	$ .10
Net income (loss) per share - basic and diluted	$ (.10)	--
Weighted average shares - basic	3,088,000	3,086,000
Weighted average shares - diluted	3,088,000	3,087,000

See accompanying notes.

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

	Three Months Ended March 31, 2007	2006
	(unaudited)	
Operating activities		
Loss from continuing operations	$ (298,000)	$ (279,000)
Adjustments to reconcile loss from continuing operations to net cash used in continuing operating activities:		
Depreciation and amortization	37,000	37,000
Non-cash expense for issuance of stock and options	12,000	5,000
Deferred taxes	--	(58,000)

Changes in operating assets and liabilities:		
Accounts receivable, trade	(244,000)	176,000
Inventory	(30,000)	(90,000)
Prepaids and other current assets	(82,000)	(42,000)
Other assets	1,000	--
Accounts payable and accrued expenses	148,000	55,000
Net cash used in continuing operations	(456,000)	(196,000)
Net cash provided by discontinued operations	--	324,000
Net cash provided by (used in) operating activities	(456,000)	128,000
Investing activities		
Patent acquisition costs	(3,000)	(8,000)
Purchase of plant and equipment	(22,000)	(39,000)
Net cash used in investing activities, continuing operations	(25,000)	(47,000)
Purchase of plant and equipment, discontinued operations	--	(13,000)
Net cash used in investing activities, discontinued operations	--	(13,000)
Net cash used in investing activities	(25,000)	(60,000)
Financing activities		
Net advances from line of credit	1,000	129,000
Net repayment of line of credit and capital lease obligations	(11,000)	(20,000)
Net cash (used in) provided by financing activities, continuing operations	(10,000)	109,000
Net repayment of line of credit and bank debt, discontinued operations	--	(208,000)
Net cash used in financing activities, discontinued operations	--	(208,000)
Net cash used in financing activities	(10,000)	(99,000)
Net change in cash	(491,000)	(31,000)
Cash, beginning of period	15,720,000	64,000
Cash, end of period	$ 15,229,000	$ 33,000
Supplemental cash flow information:		
Cash paid for interest, continuing operations	$ 6,000	$ 27,000
Cash paid for interest, discontinued operations	--	$ 38,000

See accompanying notes.

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

March 31, 2007

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 ending December 31, 2006.

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 October 31, 2006.

Operating results for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ended December 31, 2007 or any future period.

Income Taxes

Our income taxes are computed using the asset and liability method of accounting. Under the asset and liability method, a deferred tax asset or liability is recognized for estimated future tax effects attributable to temporary differences and carryforwards. The measurement of deferred income tax assets is adjusted by a valuation allowance, if necessary, to recognize future tax benefits only to the extent, based on available evidence; it is more likely than not such benefits will be realized. Our deferred tax assets were fully reserved at March 31, 2007 and December 31, 2006.

Effective January 1, 2007, we adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes -- An Interpretation of FASB Statement No. 109, or FIN 48. FIN 48 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the financial statements in accordance with SFAS No. 109. Tax positions must meet a "more-likely-than-not" recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. Upon the adoption of FIN 48, we had no unrecognized tax benefits. During the first quarter of 2007, we recognized no adjustments for uncertain tax benefits.

We recognize interest and penalties related to uncertain tax positions in income tax expense. No interest and penalties related to uncertain tax positions were accrued at March 31, 2007.

The tax years 2003 through 2006 remain open to examination by the major taxing jurisdictions in which we operate. We expect 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, 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"), until the date of its sale, which was October 31, 2006, 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	
	March 31, 2007	March 31, 2006
Stock options	$8,000	$4,000
Total share-based compensation expense	$8,000	$4,000

Prior to January 1, 2006, the Company followed APB Opinion No. 25 and related interpretations in accounting for its stock options and grants because 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.

Stock option activity was as follows:

	Number of Shares	Weighted Average Exercise Price ($)
Balance at January 1, 2007	52,000	$ 7.50
Granted	2,500	$ 4.80
Exercised	--	
Forfeited or expired	(20,000)	$ 9.00
Balance at March 31, 2007	34,500	$ 6.15

The following table presents information regarding options outstanding as of March 31, 2007:

Weighted average contractual remaining term - options outstanding	.55 year
Aggregate intrinsic value - options outstanding	-
Options exercisable	32,500
Weighted average exercise price - options exercisable	$6.15
Aggregate intrinsic value - options exercisable	-
Weighted average contractual remaining term - options exercisable	.55 year

There was no intrinsic value for options outstanding or options exercisable because no options were exercised during the three months ended March 31, 2007.

The following weighted average assumptions were used:

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Volatility	.536	1.024
Expected life of options (in years)	2	2
Dividend yield	0.00%	0.00%
Risk free interest rate	5.25%	4.00%
Per share value of options granted	$1.59	$4.50

As of March 31, 2007, future compensation costs related to nonvested stock options was $3,200. Management anticipates that this cost will be recognized over a weighted average period of one year.

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 the Company's 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.

Note 2. Discontinued Operations, continued

There were no discontinued operations for the three months ended March 31, 2007. Information related to the discontinued operations for the three months ended March 31, 2006 are as follows:

Sales, net	$ 7,400,000
Contract revenue	2,803,000
Total revenue	10,203,000
Cost of sales	6,363,000
Cost of contract revenue	2,593,000
Total cost of goods sold	8,956,000
Gross profit	1,247,000
Operating expenses:	
Selling, general and administrative expenses	965,000
Income from operations	282,000
Other income (expense):	
Interest expense, net	(38,000)
Other income	78,000
Total other income (expense)	40,000
Income before income taxes	322,000
Provision for income taxes	(13,000)
Net income	$ 309,000

On October 1, 2003, the Company's subsidiary, Winncom, executed a new $4,000,000 line-of-credit agreement with a bank with interest at prime plus .5% (8.75% at March 31, 2007) 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% (8.5% at March 31, 2006). The term loan became due on October 26, 2006 and was paid in full. Substantially all of the assets of Winncom were collateral on the line of credit and the term loan.

The October 1, 2003 line of credit agreement contained several covenants, which, among other things, required that Winncom maintain certain financial ratios as defined in the agreement. In addition, the agreement limited the payment of management fees by Winncom to the Company, and also limited dividends and the purchase of property and equipment. As of October 31, 2006, Winncom was in compliance with these covenants.

Note 2. Discontinued Operations, continued

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 remained at March 31, 2006.

	March 31, 2006
Bank line of credit - Winncom	$ 968,000
Foreign bank line of credit - Winncom	1,334,000
Bank term loan - Winncom	84,000
	2,386,000
Less current portion	(1,418,000)
Long-term portion	$ 968,000

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 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. The uninstalled portion of 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.

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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	
	March 31, 2007	March 31, 2006
Numerator: Net loss from continuing operations	$(298,000)	$ (279,000)
Numerator: Net income from discontinued operations	--	$ 309,000
Denominator:		
Denominator for basic earnings per share - weighted average shares	3,088,000	3,086,000
Effect of dilutive securities		
Employee stock options (**)	--	1,000
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversion	3,088,000	3,087,000
Basic earnings loss per share, continuing operations	$ (.10)	$ (.09)
Diluted earnings (loss) per share, continuing operations	$ (.10)	$ (.09)
Basic earnings per share, discontinued operations	--	$ .10
Diluted earnings per share, discontinued operations	--	$ .10

** There are no dilutive shares used in the calculation of diluted earnings per share, continuing operations for the three months ended March 31, 2007 and 2006,

since the Company had net losses from continuing operations for those periods.

Dilutive shares are used in the calculation of diluted earnings per share, discontinued operations for the three months ended March 31, 2006, since the Company had net income from discontinued operations for that period.

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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:

	March 31, 2007	December 31, 2006
Raw materials	$ 901,000	$ 900,000
Work in progress	106,000	128,000
Finished goods	506,000	454,000
	1,513,000	1,482,000
Inventory reserve	(695,000)	(694,000)
Net inventory	$ 818,000	$ 788,000

Note 5. Revolving Bank Loan Agreements

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 current Credit Facility has an annual maturity, was currently due May 10, 2007, with interest at 1.75% over prime (10% at March 31, 2007), 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. On May 4, 2007, the Credit Facility was extended to May 10, 2008 and the interest rate was reduced to prime plus 1.5%. As of March 31, 2007 and December 31, 2006, ARC was in compliance with these covenants. The balance outstanding on the revolving line of credit at March 31, 2007 and December 31, 2006 was $831,000 and $830,000, respectively.

Note 6. Equity Transactions

On February 9, 2007, the Company announced a one-for-fifty reverse stock split of its issued and outstanding common stock to be effective as of February 12, 2007 (the "Effective Date"). Pursuant to the reverse stock split, each fifty shares of the Company's issued and outstanding common stock were reclassified and combined into one share of the Company's common stock as of the Effective Date. The number of shares of the Company's common stock authorized remained at 250 million shares, without any change in par value per common share, and the number of shares of the Company's preferred stock authorized remained at 2 million.

As of the Effective Date, the exercise or conversion price, as well as the number of shares issuable under each of the Company's outstanding stock option agreements, were proportionately adjusted to reflect the reverse stock split. In addition, the number of shares authorized for issuance under the Company's

equity compensation plans, were proportionately reduced as of the Effective Date to reflect the reverse stock split.

Stockholders' equity, common stock, and stock option activity for all periods presented have been restated to give retroactive recognition to the reverse stock split. In addition, all references in the accompanying consolidated financial statements, to the weighted average shares, per share amounts, and market prices of the Company's common stock have been restated to give retroactive recognition to the reverse stock split.

During the quarter ended March 31, 2007, the Company recorded the issuance of 800 shares of common stock to a director for outstanding obligations for accrued directors' fees in the amount of $4,000.

Note 7. Recent Accounting Pronouncements

Fair Value Option - In February 2007, the FASB issued FAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159). FAS 159 permits an entity to irrevocably elect fair value on a contract-by-contract basis as the initial and subsequent measurement attribute for many financial assets and liabilities and certain other items including insurance contracts. Entities electing the fair value option would be required to recognize changes in fair value in earnings and to expense upfront cost and fees associated with the item for which the fair value option is elected. FAS 159, is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FAS No. 157, Fair Value Measurements. The Company is currently evaluating the impact, if any, of adopting FAS 159 on its financial condition or results of operations.

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 sale of Winncom at on October 31, 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 (which include segment eliminations) for the three months ended March 31, 2007 and 2006 are as follows:

		Manufacturing	Cable	Corporate	
Net sales	2007	$ 1,519,000	$ 62,000	$ --	$ 1
	2006	1,456,000	93,000		$ 1
Net loss from continuing operations	2007	(149,000)	(18,000)	(131,000)	
	2006	(45,000)	(4,000)	(230,000)	
Loss from continuing operations before income taxes	2007	(149,000)	(18,000)	(131,000)	
	2006	(99,000)	(4,000)	(230,000)	
Identifiable assets	2007	3,527,000	123,000	14,177,000	17
	2006	2,779,000	179,000	--	2

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

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

Results of Continuing Operations for the Three Months Ended March 31, 2007 and 2006

Total revenues were $1,581,000 and $1,549,000 for the three month periods ended March 31, 2007 and March 31, 2006, respectively. The $32,000 increase in revenues during the three months ended March 31, 2007 compared to the three months ended March 31, 2006 is attributable to 1) a $122,000 increase in revenues from our Wireless Communications Solutions Division; and 2) a decrease of $90,000 in revenues from our subsidiary, Starworks. Approximately 20% of our first quarter 2007 revenues resulted from sales to a customer that has incurred significant historical losses. We have implemented procedures to minimize credit and inventory risk, however, should this customer default, not receive additional financing, or otherwise discontinue doing business with us, it is possible that it will have a negative impact on our projected revenues in the latter part of 2007.

Gross profit margins were 26% and 27% for the three months ended March 31, 2007 and March 31, 2006, respectively. The decrease in gross margin is primarily the result of lower margins at Starworks on cable sales. Starworks purchased from a supplier cable that did not meet our specifications and the cable has been or will be sold at a discount to our normal selling price or the cable will be scrapped. Subsequent to March 31, 2007, Starworks has negotiated a settlement with the supplier for a credit for the cable that did not meet our specifications as well as other related costs.

Selling, general and administrative expenses (SG&A) increased by $142,000 for the three months ended March 31, 2007 compared to the three months ended March 31, 2006. Approximately $38,000 was due to increased costs (salaries and rent) associated with the organization of ARC Wireless Hong Kong Limited, $25,000 represents a reduction in allocated overhead due to the sale of Winncom in 2006, whereby those costs were not allocated in 2007. Other increases in SG&A costs comparing 2007 to 2006 include audit fees ($6,000) and legal fees ($25,000), travel and entertainment ($8,000), 401(k) employer contribution ($12,000) and outside engineering services ($4,000). SG&A as a percent of total revenues increased from 47% for the three months ended March 31, 2006 to 55% for the three months ended March 31, 2007. Salaries and wages, including commissions,

which were consistent from 2006 to 2007, remains the largest component of SG&A, constituting 50% and 60% of the total SG&A for the three months ended March 31, 2007 and March 31, 2006, respectively.

Net interest expense was $6,000 for the three months ended March 31, 2007 compared to $27,000 for the three months ended March 31, 2006 primarily due to a decrease in the average balance outstanding on the line of credit and capital lease obligations despite an increase in the prime interest rate from 7.50% for the three months ended March 31, 2006 to 8.25% for the three months ended March 31, 2007. With the sale of Winncom on October 31, 2006 for $17 million in cash, the need to use our available line of credit was significantly reduced.

Other income in 2007, represent interest income on funds invested from the sale of Winncom. No such income was earned in 2006.

The benefit for income taxes in 2006 represents an increase in deferred income taxes for which there was no comparable benefit in 2007.

The Company had a net loss from continuing operations of $298,000 for the three months ended March 31, 2007 as compared to a net loss from continuing operations of $279,000 for the three months ended March 31, 2006. The increase in the net loss from 2006 to 2007 was primarily due to the 2006 loss from continuing operations including a $54,000 benefit for income taxes for which there was none in 2007 In addition, from 2006 to 2007 there was a $142,000 increase in SG&A expenses, offset by an increase in interest income of $165,000.

Results of Discontinued Operations for the Three Months Ended March 31, 2006 (See Note 2, Discontinued Operations for the detailed operating results of the discontinued operations).

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Financial Condition

The net cash used in operating activities from continuing operations was $456,000 for the three months ended March 31, 2007 compared to $196,000 for the three months ended March 31, 2006. The net cash used in operating activities from continuing operations in 2007 was primarily due to the net loss of $298,000 for the three months ended March 31, 2007, an increase in current assets of approximately $356,000 (which uses net cash) offset by an increase in current liabilities of $148,000 (which provides net cash) and adjustments of non-cash expenses of $49,000. The net cash used in continuing operations for the three months ended March 31, 2006 was primarily due to the net loss of $279,000 for the three months ended March 31, 2006, a decrease in current assets of approximately $44,000, an increase in current liabilities of $55,000, both of which reduce net cash used in operating activities, and a net non-cash gain of $16,000.

The net cash used in investing activities from continuing operations was $25,000 for the three months ended March 31, 2007 compared to $47,000 for the three months ended March 31, 2006, primarily the result of expenditures for patents and equipment. The net cash used in investing activities from discontinued operations was $13,000 for the three months ended March 31, 2006, primarily the result of expenditures for equipment.

For the three months ended March 31, 2007, net cash used in financing activities for continuing operations was the result of the repayment of capital lease obligations. For the three months ended March 31, 2006, net cash provided by financing activities from continuing operations was the result of advances from the line of credit. For the three months ended March 31, 2006, the net cash used in financing activities for discontinued operations was the result of net income

from discontinued operations which provided excess working capital which was used to reduce bank lines of credit of the discontinued operations.

The Company's working capital at March 31, 2007, was $15,395,000 compared to $15,679,000 at December 31, 2006. The decrease as of March 31, 2007 is due primarily to the net loss from continuing operations.

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 March 31, 2007), 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. On May 4, 2007, the Credit Facility was extended to May 10, 2008 and the interest rate was reduced to prime plus 1.5% The borrowing base is calculated on a percentage of trade accounts receivable and inventory for ARC and Starworks combined. As of March 31, 2007 and December 31, 2006, ARC was in compliance with these covenants. The balance outstanding on the revolving line of credit at March 31, 2007 and December 31, 2006 was $831,000 and $830,000, respectively.

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, 2007 and into the foreseeable future.

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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 Operations", 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 Annual Report on Form 10-K for the year ended December 31, 2006. There have been no material changes to the Company's risk factors from those disclosed in the Company's 2006 Annual Report on Form 10-K. The words "believe", "may", "will", "when", "estimate", "continue", "anticipate", "intend", "expect" and similar expressions, as they relate to ARC, 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 March 31, 2007) plus 1.75%. The prime interest rate increased from 7.25% to 8.25% between January 1, 2006 and December 31, 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 $5,000, assuming borrowed amounts remain outstanding at the average balance for the three months ended March 31, 2007. 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 over financial reporting or other factors that have materially affected, or are reasonably likely to materially affect, those controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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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, 2006. There have been no material changes from the risk factors previously disclosed in our Form 10-K for the fiscal year ended December 31, 2006.

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

On April 3, 2007, the Company recorded the issuance of 800 shares of common stock to Mr. Robert E. Wade, a director, for outstanding obligations for accrued director's fees in the amount of $4,000. 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 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None.

Item 6. Exhibits

EXHIBIT INDEX

Exhibit Number	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)

Exhibit Number	Description
10.1	Agreement between and among Winncom Technologies Inc., Winncom Technologies Corp. and the Company dated May 24, 2000. (3)
10.2	Employment Agreement effective January 2, 2004 between the Company and Randall P. Marx. (4)
10.3	Employment Agreement effective October 1, 2004 between Winncom Technologies Corp. and Gregory E. Raskin. (4)
10.4	Employment Agreement effective July 1, 2005 between the Company and Monty R. Lamirato.(5)
10.5	Stock Purchase Agreement, dated as of July 28, 2006, by and among the Company, Winncom Technologies Corp. and Bluecoral Limited. (6)
10.6	Escrow Agreement, dated as of July 28, 2006, by and among the Company, Bluecoral Limited and Consumer Title Services, LLC. (6)
14.1	Amended and Restated Code of Ethics (7)
21	Subsidiaries of the Registrant (8)
31.1	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
99.1	Nominating Policies and Procedures (8)

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(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 Exhibit 2.1 of the Company's Form 8-K filed on June 8, 2000.
(4) Incorporated by reference from the Company's Form 10-K for December 31, 2004 filed on March 30, 2005.
(5) Incorporated by reference from the Company's Form 10-K for December 31, 2005 filed on March 20, 2006.
(6) Incorporated by reference from the Company's Form 8-K/A filed on August 2, 2006.
(7) Incorporated by reference from the Company's Form 8-K filed on November 10, 2006.
(8) Incorporated by reference from the Company's Form 10-K for December 31, 2006 filed on April 2, 2007

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.

ARC WIRELESS SOLUTIONS, INC.

Date: May 11, 2007 By: /s/ Randall P. Marx

Randall P. Marx
Chief Executive Officer

Date: May 11, 2007 By: /s/ Monty R. Lamirato

Monty R. Lamirato
Chief Financial Officer

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