ARC WIRELESS SOLUTIONS INC
Form 10-Q
November 14, 2008

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

FORM 10 - Q

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

For the quarterly period ended September 30, 2008

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, 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 November 1, 2008, the Registrant had 3,091,350 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

September 30, 2008

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

ARC Wireless Solutions, Inc.
Condensed Consolidated Balance Sheets

	September 30, 2008 (unaudited)	December 31, 2007 *
Assets		
Current assets:		
Cash and equivalents	$ 14,725,000	$ 14,941,000
Accounts receivable - trade, net	992,000	1,173,000
Inventory, net	1,034,000	1,179,000
Other current assets	84,000	109,000
Total current assets	16,835,000	17,402,000
Property and equipment, net	416,000	365,000
Other assets:		
Intangible assets, net	124,000	106,000
Deposits	33,000	39,000
Total assets	$ 17,408,000	$ 17,912,000

Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 607,000	$ 631,000
Bank debt - current	1,170,000	1,436,000
Accrued expenses	297,000	286,000
Current portion of capital lease obligations	88,000	56,000
Total current liabilities	2,162,000	2,409,000
Capital lease obligations, less current portion	89,000	83,000
Total liabilities	2,251,000	2,492,000
Commitments		
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 and 3,090,000 issued in 2008 and 2007, respectively.	2,000	2,000
Additional paid-in capital	20,725,000	20,696,000
Accumulated deficit	(5,570,000)	(5,278,000)
Total stockholders' equity	15,157,000	15,420,000
Total liabilities and stockholders' equity	$ 17,408,000	$ 17,912,000

* These numbers were derived from the audited financial statements for the year ended December 31, 2007. See accompanying notes.

ARC Wireless Solutions, Inc.
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months September	
	2008	2007	2008	
Sales, net	$ 2,284,000	$ 1,986,000	$ 5,905,000	$
Cost of sales	1,485,000	1,362,000	3,730,000	
Gross profit	799,000	624,000	2,175,000	
Operating expenses:				
Selling, general and administrative expenses	857,000	1,012,000	2,727,000	
Loss from operations	(58,000)	(388,000)	(552,000)	
Other income (expense):				
Interest expense	(10,000)	(5,000)	(41,000)	
Other income	79,000	220,000	301,000	
Total other income (expense)	69,000	215,000	260,000	

Income (loss) before income taxes	11,000	(173,000)	(292,000)	
Provision for income taxes	--	--	--	--
Net income (loss)	$ 11,000	$ (173,000)	$ (292,000)	$
Net income (loss) per share - basic and diluted	--	$ (.06)	$ (.09)	$
Weighted average shares - basic	3,091,000	3,089,000	3,091,000	
Weighted average shares - diluted	3,091,000	3,089,000	3,091,000	

See accompanying notes.

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

	Nine Months Ended September	
	2008	2007
Operating activities		
Net loss	$ (292,000)	$ (365,00
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	147,000	122,00
Non-cash expense for issuance of stock and options	26,000	27,00
Provision for doubtful accounts	57,000	--
Changes in operating assets and liabilities:		
Accounts receivable, trade	124,000	(490,00
Inventory	145,000	(379,00
Prepaids and other current assets	25,000	(136,00
Other assets	6,000	(3,00
Accounts payable and accrued expenses	(10,000)	182,00
Net cash provided by (used in) operating activities	228,000	(1,042,00
Investing activities		
Patent acquisition costs	(30,000)	(10,00
Purchase of plant and equipment	(83,000)	(85,00
Net cash used in investing activities	(113,000)	(95,00
Financing activities		
Advances from line of credit	3,304,000	3,306,00
Repayment of line of credit and capital lease obligations	(3,635,000)	(2,817,00
Net cash provided by (used in) financing activities	(331,000)	489,00
Net change in cash	(216,000)	(648,00
Cash and cash equivalents, beginning of period	14,941,000	15,720,00
Cash and cash equivalents, end of period	$ 14,725,000	$ 15,072,00

Supplemental cash flow information:		
Cash paid for interest	$ 41,000	$ 16,00
Issuance of stock for accrued fees	$ 3,000	--
Acquisition of property and equipment through capital lease	$ 103,000	$ 135,00

See accompanying notes.

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ARC Wireless Solutions, Inc.
Notes to Condensed Consolidated Financial Statements
September 30, 2008

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 financial statements contain all of the normal recurring adjustments necessary to present fairly the financial position of the Company as of September 30, 2008, the results of its operations and its cash flows for the three 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, 2007.

During the periods presented in the unaudited condensed consolidated financial statements, the Company operated in two business segments which are identified as 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.

Operating results for the three and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008 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") and ARC Wireless Hong Kong Limited, ("ARCHK"), since their respective acquisition dates. All material intercompany accounts, transactions, and profits have been eliminated in consolidation.

Basis of Presentation

The Company has experienced recurring losses, and has accumulated a deficit of approximately $5.6 million since inception in 1987. 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, which includes $14.7 million in cash and cash equivalents at September 30, 2008, and available borrowings on the Company's existing bank line of credit will be sufficient to allow the Company to maintain its operations through

December 31, 2008.

Use of Estimates

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

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. From time to time the Company has cash balances in excess of federally insured amounts. As of September 30, 2008, the cash balance exceeded the Federal Deposit Insurance Corporation ("FDIC") limitation for coverage of $100,000 by approximately $14,500,000 and as of December 31, 2007, the balance exceeded the FDIC

limitation for coverage of $100,000 by approximately $14,800,000. The Company reduces its exposure to credit risk by maintaining such balances with financial institutions that have high credit ratings. On October 3, 2008, FDIC deposit insurance temporarily increased from $100,000 to $250,000 per depositor through December 31, 2009.

Fair Value of Financial Instruments

The Company's short-term financial instruments consist of cash, money market accounts, accounts receivable, accounts payable, accrued expenses and bank debt. 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 requiring payment usually within 30 days of the invoice date. Management reviews trade receivables periodically and reduces the carrying amount by a valuation allowance that reflects management's best estimate of the amount that may not be collectible. The allowance for doubtful accounts was $510,000 and $453,000 at September 30, 2008 and December 31, 2007, respectively. Bad debt expense was $28,000 and $0 for the three months ended September 30, 2008 and 2007, respectively and $57,000 and $0 for the nine months ended September 30, 2008 and 2007, respectively.

Income Taxes

The Company accounts for income utilizing the asset and liability method of computing deferred income taxes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the 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.

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 positions. During the three months and nine months ended September 30, 2008 and 2007, we recognized no adjustments for uncertain tax positions.

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 September 30, 2008 and December 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, or net loss.

Note 2: 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.. We usED the modified prospective method of adoption, which allows us to apply SFAS 123(R) on a going-forward basis rather than restating prior periods.

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

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

	Three Months Ended	
	September 30, 2008	September 30, 2007
Stock options	$8,000	$4,000
Total share-based compensation expense	$8,000	$4,000

	Nine Months Ended	
	September 30, 2008	September 30, 2007
Stock options	$26,000	$15,000

Total share-based compensation expense	$26,000	$15,000

Stock option activity was as follows:

	Number of Shares	Weighted Average Exercise Price ($)
Balance at January 1, 2008	54,500	$ 5.56
Granted	--	
Exercised	--	
Forfeited or expired	(7,000)	$ 6.79
Balance at September 30, 2008	47,500	$ 5.38

The following table presents information regarding options outstanding as of September 30, 2008:

Weighted average contractual remaining term - options outstanding	7.7
Aggregate intrinsic value - options outstanding	-
Options exercisable	14,000
Weighted average exercise price - options exercisable	$5.34
Aggregate intrinsic value - options exercisable	-
Weighted average contractual remaining term - options exercisable	5.4

There were no options granted or exercised during the nine months ended September 30, 2008.

Note 2: Share-Based Compensation, continued

The following weighted average assumptions were used:

	Three and Nine Months Ended September, 2007
Volatility	.52
Expected life of options (in years)	4.25
Dividend yield	0.00%
Risk free interest rate	4.64%
Per share value of options granted	$1.59

As of September 30, 2008, future compensation costs related to non-vested stock options was $102,000. Management anticipates that this cost will be recognized over a weighted average period of approximately 4 years.

Note 3. Earnings Per Share

SFAS 128 provides for the calculation of Basic and Dilutive earnings (loss) per share. Basic earnings (loss) per share includes no dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share, reflects the potential dilution of securities that could share in the earnings of the entity. For periods where the Company has incurred a net loss, stock

options and stock warrants were not included in the computation of diluted loss per share because their effect was anti-dilutive, therefore, basic and fully diluted loss per share are the same for those periods.

The following table represents a reconciliation of the shares used to calculate basic and diluted earnings per share for the respective periods indicated:

	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	Septemb 20
Numerator: Net Income (loss)	$ 11,000	$ (173,000)	$ (292,000)	$ (36
Denominator:				
Denominator for basic earnings per share - weighted average shares	3,091,000	3,089,000	3,091,000	3,08
Effect of dilutive securities				
Employee stock options (**)	--	--	--	
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversion	3,091,000	3,089,000	3,091,000	3,08
Basic loss per share	--	$ (.06)	$ (.09)	$
Diluted loss per share	--	$ (.06)	$ (.09)	$

** There are no dilutive shares used in the calculation of diluted earnings per share, for the three months September 30, 2007 and the nine months ended September 30, 2008 and 2007, since the Company had net losses for those periods. For the three months ended September 30, 2008 there were no dilutive shares in the calculation of diluted earnings per share since there were no in the money options.

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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:

	September 30, 2008	December 31, 2007
Raw materials	$ 886,000	$ 963,000
Work in progress	94,000	105,000
Finished goods	818,000	815,000
	1,798,000	1,883,000
Inventory reserve	(764,000)	(704,000)
Net inventory	$ 1,034,000	$ 1,179,000

Note 5. Revolving Bank Loan Agreements

On May 10, 2005, the Company entered into a $1.5 million revolving line-of-credit agreement (the "Credit Facility") with Citywide Banks. The Credit Facility has an annual maturity and is currently due May 1, 2009, with interest at 1.5% over prime (6.5% at September 30, 2008), 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 ARC Hong Kong. The borrowing base is calculated on a percentage of trade receivables and inventory for ARC combined. The balance outstanding on the revolving line of credit at September 30, 2008 and December 31, 2007 was $1,170,000 and $1,436,000, 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.

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Note 6. Equity Transactions, continued

During the nine months ended September 30, 2008, the Company recorded the issuance of 707 shares of common stock to a director for outstanding obligations for accrued directors' fees in the amount of $3,000.

During the nine months ended September 30, 2007, the Company recorded the issuance of 2,409 shares of common stock to a director for outstanding obligations for accrued directors' fees in the amount of $12,000.

Note 7. Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which enhances existing guidance for measuring assets and liabilities using fair value. SFAS 157 provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. SFAS 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted market prices in active markets. Under the standard, fair value measurements would be separately disclosed by level within

the fair value hierarchy. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. SFAS 157 does not require any new fair value measurements for existing assets and liabilities on the Company's balance sheet as of the date of adoption. The adoption of SFAS 157 on January 1, 2008 did not have an impact on our consolidated financial position or consolidated results of operations.

In February 2008, the FASB issued FASB Staff Position FAS 157-2, Effective Date of FASB Statement No. 157 ("FSP FAS 157-2"). FSP FAS 157-2 delays the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, at least annually. FSP FAS 157-2 is effective for our fiscal year beginning January 1, 2009. The adoption of FSP FAS 157-2 is not expected to have a material impact on our Consolidated Financial Statements.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans--an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS 158"), which requires the recognition of the funded status of benefit plans in the balance sheet. SFAS 158 also requires certain gains and losses that are deferred under current pension accounting rules to be recognized in accumulated other comprehensive income, net of tax effects. These deferred costs (or income) will continue to be recognized as a component of net periodic pension cost, consistent with current recognition rules. For entities with no publicly traded equity securities, the effective date for the recognition of the funded status is for fiscal years ending after June 15, 2007. In addition, the ability to measure the plans' benefit obligations, assets and net period cost at a date prior to the fiscal year-end date is eliminated for fiscal years ending after December 15, 2008. The adoption of the recognition element of SFAS 158 had no effect on the Company's financial statements. The adoption of the measurement date element of SFAS 158 is not expected to have a material impact on the Company's financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities--including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 expands the use of fair value accounting but does not affect existing standards which require assets and liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees, issued debt and other eligible financial instruments. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company has elected not to adopt SFAS 159.

Note 7. Recent Accounting Pronouncements, continued

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"), which replaces SFAS 141. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired in connection with a business combination. The Statement also establishes disclosure requirements that will enable users to evaluate the nature and financial effect of the business combination. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of an entity's first fiscal year that begins after December 15, 2008. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS 141R on the Company's financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements--an amendment of ARB No. 51" ("SFAS 160"). SFAS 160 requires that accounting and reporting for minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This Statement is effective as of the beginning of an entity's first fiscal year beginning after December 15, 2008. The Company has not yet determined the impact, if any, that SFAS 160 will have on its financial statements.

On March 19, 2008, The Financial Accounting Standards Board (FASB) issued FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities. The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company has not yet determined the impact, if any, that SFAS 161 will have on its financial statements.

In June 2008, the FASB issued FASB Staff Position EITF 03-6-1 "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities" ("FSP EITF 03-6-1"). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share ("EPS") under the two-class method described in paragraphs 60 and 61 of SFAS No. 128, "Earnings Per Share". FSP EITF 03-6-1 is effective for fiscal years and interim periods beginning after December 15, 2008 and requires retrospective adjustment for all comparable prior periods presented. We do not expect adoption of FSP EITF 03-6-1 to have a material effect on our EPS calculations or disclosures.

Note 8. Concentration of Credit Risk

One customer accounted for approximately 10% of the Company's net sales for the nine months ended September 30, 2008. One customer accounted for approximately 16% of the Company's net sales for the nine months ended September 30, 2007. In November 2007, the customer who accounted for 16% of our revenues in 2007 filed for bankruptcy reorganization. The Company expects sales related to this customer to continue in 2008 (a) at a lower volume than in previous quarters in 2007 and (b) at a more unpredictable and irregular rate as in previous quarters. The Company's management also believes that orders related to this customer will continue at least through Q2 of 2009 but will not continue at historical levels during that period.

Note 9. 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.

Financial information regarding the Company's two continuing operating segments (which include segment eliminations) for the three months ended September 30, 2008 and 2007 are as follows:

		Manufacturing	Cable	Corporate	T
Net sales	2008	$ 2,270,000	$ 14,000		$ 2,
	2007	1,976,000	10,000	--	1,
Net income (loss)	2008	173,000	(13,000)	(149,000)	
	2007	(42,000)	49,000	(180,000)	(
Income (Loss) before income taxes	2008	173,000	(13,000)	(149,000)	
	2007	(42,000)	49,000	(180,000)	(
Identifiable assets	2008	3,961,000	74,000	13,373,000	17,
	2007	4,872,000	122,000	13,449,000	18,

Financial information regarding the Company's two continuing operating segments (which include segment eliminations) for the nine months ended September 30, 2008 and 2007 are as follows:

		Manufacturing	Cable	Corporate	Tot
Net sales	2008	$ 5,877,000	$ 25,000		$ 5,90
	2007	5,561,000	95,000	--	5,65
Net income (loss)	2008	276,000	(28,000)	(540,000)	(29
	2007	14,000	47,000	(426,000)	(36
Income (Loss) before income taxes	2008	276,000	(28,000)	(540,000)	(29
	2007	14,000	47,000	(426,000)	(36
Identifiable assets	2008	3,961,000	74,000	13,373,000	17,40
	2007	4,872,000	122,000	13,449,000	18,44

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

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

Results of Continuing Operations for the Three Months Ended September 30, 2008 and 2007

Total revenues were $2,284,000 and $1,986,000 for the three month periods ended September 30, 2008 and September 30, 2007, respectively. The $298,000 increase

in revenues during the three months ended September 30, 2008 compared to the three months ended September 30, 2007 is attributable to a $294,000 increase in revenues from our Wireless Communications Solutions Division and an increase of $4,000 in revenues from our Starworks subsidiary. The 15% increase in revenue from the Wireless Communications Solutions Division is primarily attributable to an increase in new customers.

Gross profit margins were 35% for the three months ended September 30, 2008 and 31% for the three months ended September 30, 2007. The increase in the gross margin is primarily the result of lower operating costs resulting from our efforts in successfully transitioning most of our production to China through our Hong Kong subsidiary, ARCHK, as well as reducing overhead from our U.S. operations.

Selling, general and administrative expenses (SG&A) decreased by $155,000 for the three months ended September 30, 2008 compared to the three months ended September 30, 2007. Most of the decrease is attributable to the write off of old trade payables of approximately $100,000. While bad debt expense increased $18,000 and director compensation increased $9,000 in 2008 compared to 2007, this was offset by decreases in outside services, $48,000, and group medical, $5,000. SG&A as a percent of total revenues decreased from 51% for the three months ended September 30, 2007 to 38% for the three months ended September 30, 2008, primarily due to a 15% increase in sales and a reduction in SG&A of $155,000. Salaries and wages, including commissions, remains the largest component of SG&A costs, constituting 62% and 50% of the total SG&A costs for the three months ended September 30, 2008 and September 30, 2007, respectively.

Net interest expense was $10,000 for the three months ended September 30, 2008 compared to $5,000 for the three months ended September 30, 2007, primarily related to capital lease obligations which increased $239,000 from September 30, 2007.

Other income in 2008 and 2007 represents interest income on funds invested from the sale of Winncom. The decline in interest income from 2007 to 2008 is due primarily to a decline in the interest rates from 5% in 2007 to 2.68% in 2008.

There is no provision for income taxes for the three months ended September 30, 2008 despite net income of $11,000 because of net losses in the first two quarters of 2008 offsetting that net income. There is no provision for income taxes for the three months ended September 30, 2007 due to net losses.
The Company had net income of $11,000 for the three months ended September 30, 2008 as compared to a net loss of $173,000 for the three months ended September 30, 2007. The change from net loss in 2007 to net income in 2008 was primarily due to a 15% increase in revenues, an increase in gross profit, and a decrease in SG&A of $155,000, partially offset by a decrease of $141,000 in interest income.

Results of Continuing Operations for the Nine Months Ended September 30, 2008 and 2007

Total revenues were $5,905,000 and $5,656,000 for the nine month periods ended September 30, 2008 and September 30, 2007, respectively. The 4% increase in revenues during the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007 is attributable our Wireless Communications Solutions Division partially offset by a decrease of $70,000 in revenues from our Starworks subsidiary. The increase in revenues in 2008 is attributable to both increased sales to existing customers and sales to new customers.

Gross profit margins were 37% and 32% for the nine months ended September 30, 2008 and September 30, 2007, respectively. The increase in gross margin is primarily the result of lower operating costs resulting from our efforts in successfully transitioning most of our production to China through our Hong Kong

subsidiary, ARCHK, as well as reducing overhead from our U.S. operations.

Selling, general and administrative expenses (SG&A) decreased by $40,000 for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007, primarily due to a write-off of old trade payables of approximately $100,000, and decreases in employee benefits $18,000, and in outside services of $73,000, all of which are partially by increases in salaries and wages $83,000, and bad debt expense, $55,000. SG&A as a percent of total revenues decreased from 49% for the nine months ended September 30, 2007 to 46% for the nine months ended September 30, 2008. Salaries and wages, including commissions, remains the largest component of SG&A costs, constituting 55% of the total SG&A costs for the nine months ended September 30, 2008 and 51% for the nine months ended September 30, 2007.

Net interest expense was $41,000 for the nine months ended September 30, 2008 compared to $16,000 for the nine months ended September 30, 2007, primarily related to capital lease obligations which increased $239,000 from June 30, 2007.

Other income in 2008 and 2007 represents interest income on funds invested from the sale of Winncom. The decline in interest income from 2007 to 2008 is primarily due to a decline in the interest rates from 5% in 2007 to 2.68% in 2008.

There is no provision for income taxes for the nine months ended September 30, 2008 and 2007, due to net losses.

The Company had a net loss of $292,000 for the nine months ended September 30, 2008 as compared to a net loss of $365,000 for the nine months ended September 30, 2007. The decrease in the net loss, $73,000, from 2007 to 2008, is primarily due to an increase in revenues, and an increase in gross margin, $341,000, partially offset by a reduction in interest income, $283,000.

Financial Condition

The net cash provided by operating activities was $228,000 for the nine months ended September 30, 2008 compared to net cash used in operating activities of $1,042,000 for the nine months ended September 30, 2007.

The primary reasons for the change is a $73,000 reduction in the net loss comparing 2008 to 2007, a reduction in accounts receivable, trade and inventory of $269,000, an increase in non cash expenses of $81,000 partially offset by a decrease in accounts payable and accrued expenses of $10,000. In 2007, there were substantial increases in inventory, $490,000, trade accounts receivable, $379,000, prepaid expenses, $136,000, partially offset by increases in accounts payable and accrued expense of $182,000, which were primarily due to increased sales in 2007 and an increase in open customer purchase orders which would be fulfilled by December 31, 2007

The net cash used in investing activities from was $113,000 for the nine months ended September 30, 2008 compared to $95,000 for the nine months ended September 30, 2007, primarily the result of expenditures for patents and equipment.

Net cash used in financing activities for the nine months ended September 30, 2008 was $331,000 compared to net cash provided by financing activities of $489,000 for the nine months ended September 30, 2007. This change is primarily the result of repayments on the Company's line of credit.

The Company's working capital at September 30, 2008 was $14,673,000 compared to

$14,993,000 at December 31, 2007. The decrease as of September 30, 2008 is due primarily to the funding of the net loss.

On May 10, 2005, the Company entered into a $1.5 million revolving line-of-credit agreement (the "Credit Facility") with Citywide Banks. The Credit Facility has an annual maturity and is currently due May 1, 2009, with interest at 1.5% over prime (6.5% at September 30, 2008), 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 ARC Hong Kong. The borrowing base is calculated on a percentage of trade receivables and inventory for ARC combined. The balance outstanding on the revolving line of credit at September 30, 2008 and December 31, 2007 was $1,170,000 and $1,436,000, 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 remaining 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, 2008 and into the foreseeable future.

Forward-Looking Statements

This Quarterly Report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact included in this Quarterly Report, including "Item 2: Management's Discussion and Analysis of Financial Condition and Results of 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, 2007. There have been no material changes to the Company's risk factors from those disclosed in the Company's 2007 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 interest rates related to our line of credit which has variable interest rates equal to the existing bank prime rate (5.0% as of September 30, 2008) plus one and one-half percent and to a lesser degree our capitalized lease obligations. The prime interest rate decreased from 7.75% at September 30, 2007 to 5.0% at September 30, 2008. A decrease in the bank's prime interest rate on our line of credit would not have a material effect due to the fact that the line of credit is rarely used due to our

significant cash and cash equivalents.

In addition, we are exposed to market risk on interest rates earned on excess funds from the proceeds from the sale of Winncom. The excess funds are invested in short term money market securities and a reduction in the interest rate of 1% would reduce our interest income by $150,000 based on the average amount invested during the year ended September 30, 2008. Our management believes that fluctuation in interest rates in the near term will not materially affect our consolidated operating results, financial position or cash flow.

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Critical Accounting Policies

The consolidated financial statements of the Company are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these consolidated financial statements requires the Company's management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and related notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. The Company's significant accounting policies are summarized in Note 1 to the consolidated financial statements contained in its Annual Report on Form 10-K filed for the year ended December 31, 2007. Since December 31, 2007, there have been no significant changes to our critical accounting estimates and policies.

Item 4T. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures, or "disclosure controls" pursuant to Exchange Act Rule 13a-15(b). Disclosure controls are controls and procedures designed to reasonably ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this quarterly report, is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms. Disclosure controls include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Our disclosure controls include some, but not all, components of our internal control over financial reporting. Based upon that evaluation, the Company's management, including our CEO and CFO concluded that as of September 30, 2008 our disclosure controls and procedures are effective such that the information relating to us required to be disclosed in our Securities and Exchange Commission ("SEC") reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

This quarterly report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this quarterly report.

Change in Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining an adequate system of internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the United States. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives. In evaluating the effectiveness of our internal control over financial reporting, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework.

There have not been any changes in our internal control over financial reporting during the quarter ended September 30, 2008, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 trade 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 for that portion of the trade 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 ended December 31, 2007. There have been no material changes from the risk factors previously disclosed in our Form 10-K for the fiscal year ended December 31, 2007.

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

None

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
3.1	Amended and Restated Articles of Incorporation dated October 11, 2000 (1)
3.2	Bylaws of the Company as amended and restated on June 30, 2008 (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
32.1	Officers' Certifications of Periodic Report pursuant to Section 906 of Sarbanes-Oxley Act of 2002
99.1	Nominating Policies and Procedures

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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 8-K filed on July 8, 2008.
(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.

SIGNATURE

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: November 12, 2008

By: /s/ Randall P. Marx

Randall P. Marx
Chief Executive Officer

Date: November 12, 2008

By: /s/ Monty R. Lamirato

Monty R. Lamirato

Chief Financial Officer