ARC WIRELESS SOLUTIONS INC
Form 10-Q/A
August 17, 2006

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

FORM 10 - Q/A

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended June 30, 2006.

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, 80033-2163
(Address of principal executive offices including zip code)

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

Not Applicable
(Former Name or Former Address, 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 August 1, 2006, the Registrant had 154,359,449 shares outstanding of its $.0005 par value common stock.

ARC Wireless Solutions, Inc.

Quarterly Report on FORM 10-Q/A For The Period Ended

June 30, 2006

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

ARC Wireless Solutions, Inc.
Condensed Consolidated Balance Sheets

Assets	June 30, 2006 (unaudited)	December 31, 2005 *
Current assets:		
Cash and equivalents	$ 79,000	$ 64,000
Accounts receivable - trade, net	898,000	907,000
Inventory, net	1,170,000	919,000
Deferred tax assets	537,000	516,000
Net assets of discontinued operation (Note 2)	39,761,000	30,524,000
Other current assets	145,000	71,000
Total current assets	42,590,000	33,001,000
Property and equipment, net	355,000	342,000
Other assets:		
Intangible assets, net	104,000	103,000
Deposits	52,000	43,000
Total assets	$ 43,101,000	$ 33,489,000
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 897,000	$ 353,000
Bank debt - current	1,234,000	554,000
Accrued expenses	174,000	302,000
Net liabilities of discontinued operation (Note 2)	23,806,000	15,339,000
Current portion of capital lease obligations	66,000	66,000
Total current liabilities	26,177,000	16,614,000
Deferred tax liabilities	26,000	26,000
Capital lease obligations, less current portion	--	39,000
Total liabilities	26,203,000	16,679,000
Commitments		
Stockholders' equity:		
Common stock	78,000	78,000
Preferred stock	--	--
Additional paid-in capital	21,768,000	21,760,000
Treasury stock	(1,195,000)	(1,195,000)
Accumulated deficit	(3,753,000)	(3,833,000)
Total stockholders' equity	16,898,000	16,810,000
Total liabilities and stockholders' equity	$ 43,101,000	$ 33,489,000

* These numbers were derived from the audited financial statements for the year ended December 31, 2005 and adjusted for discontinued operations. See accompanying notes.

ARC Wireless Solutions, Inc.
Condensed Consolidated Statements of Operations

	Three Months Ended June 30, 2006	2005	Six 200
	(unaudited)		
Sales, net	$ 1,824,000	$ 1,691,000	$ 3,37
Cost of sales	1,430,000	930,000	2,55
Gross profit	394,000	761,000	81
Operating expenses:			
Selling, general and administrative expenses	760,000	643,000	1,48
Income (loss) from operations	(366,000)	118,000	(67
Other income (expense):			
Interest expense, net	(33,000)	(44,000)	(6
Other income	--	1,000	
Total other income (expense)	(33,000)	(43,000)	(6
Loss from continuing operations before income taxes	(399,000)	75,000	(73
(Provision) benefit for income taxes	(37,000)	--	1
Income (loss) from continuing operations	(436,000)	75,000	(71
Discontinued Operations (Note 2)			
Income from operations of the discontinued component	547,000	140,000	86
Income taxes, discontinued component	(61,000)	(8,000)	(7
Net Income (Loss)	$ 50,000	$ 207,000	$ 8
Net income (loss) per share - continuing operations - Basic and Diluted	$ (.003)	*	$
Net income (loss) per share - discontinued operations - Basic and Diluted	$ .003	$ .001	$
Weighted average shares - Basic	154,319,700	154,017,000	154,31
Weighted average shares - Diluted	154,407,000	154,048,000	154,42

See accompanying notes.

* Less than $.001 per share

ARC Wireless Solutions, Inc.

Condensed Consolidated Statements of Cash Flows

	Six Months Ended June 30, 2006	2005
	(unaudited)	
Operating activities		
Income (loss) from continuing operations	$ (715,000)	$ (140,000)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Depreciation and amortization	74,000	109,000
Provision for doubtful accounts	--	
Non-cash expense for issuance of stock and options	8,000	54,000
Deferred taxes	(21,000)	--
Changes in operating assets and liabilities:		
Accounts receivable, trade	9,000	114,000
Inventory	(251,000)	81,000
Prepaids and other current assets	(74,000)	(43,000)
Other assets	(9,000)	--
Accounts payable and accrued expenses	417,000	(172,000)
Net cash provided by (used in) continuing operations	(562,000)	3,000
Net cash provided by discontinued operations	1,208,000	2,132,000
Net cash provided by operating activities	646,000	2,135,000
Investing activities		
Patent acquisition costs	(9,000)	(3,000)
Purchase of plant and equipment	(78,000)	(18,000)
Net cash used in investing activities, continuing operations	(87,000)	(21,000)
Financing activities		
Net advances from line of credit	679,000	229,000
Net repayment of line of credit and capital lease obligations	(40,000)	(30,000)
Net cash provided by financing activities, continuing operations	639,000	199,000
Net repayment of line of credit and bank debt, discontinued operations	(1,183,000)	(2,232,000)
Net cash used in financing activities, discontinued operations	(1,183,000)	(2,232,000)
Net cash used in financing activities	(544,000)	(2,033,000)
Net change in cash	15,000	81,000
Cash, beginning of period	64,000	74,000
Cash, end of period	$ 79,000	$ 155,000
Supplemental cash flow information:		
Cash paid for interest, continuing operations	$ 60,000	$ 71,000
Cash paid for interest, discontinuing operations	$ 65,000	$ 70,000
Cash paid for taxes, continuing operations	$ --	$ --
Cash paid for taxes, discontinued operations	$ 233,000	$ --

See accompanying notes.

ARC Wireless Solutions, Inc.
Notes to Condensed Consolidated Financial Statements
June 30, 2006

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 ended December 31, 2005.

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 is being held for sale.

Operating results for the three months and six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ended December 31, 2006 or any future period.

Reclassifications - Amendment to Form 10-Q

The report on Form 10-Q/A has been filed to modify the disclosure of discontinued operations in the consolidated statements of cash flows. The changes in this Form 10-Q/A from the Form 10-Q for the period ended June 30, 2006, which was previously filed, have no effect on financial condition, gross profit, income (loss) from operations or net income.

Certain balances in 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") and Starworks Wireless Inc. ("Starworks"), 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.

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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 June 30, 2006	Six Months Ended June 30, 2006
Stock options	$ --	$4,000
Total share-based compensation expense	$ --	$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 since 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.

If compensation cost for the Company's stock-based compensation plans had been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS No. 123, then the Company's net loss and per share amounts for the three months and six months ended June 30, 2005, would have been adjusted to the pro forma amounts indicated below:

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net income as reported	$ 207,000	$ 106,000
Add: stock based compensation included in reported net loss	--	--
Deduct: Stock-based compensation cost under SFAS 123	(12,000)	(16,000)
Pro forma net income	$ 195,000	$ 90,000

Pro forma basic and diluted net loss per share:		
Pro forma shares used in the calculation of pro forma net income per common share- basic	154,017,000	153,955,000
Pro forma shares used in the calculation of pro forma net income per common share- diluted	154,048,000	154,105,000
Reported net income per common share - basic and diluted	$ .001	$ .001
Pro forma net income per common share - basic and diluted	$ .001	$ .001

Pro forma information regarding net loss is required by SFAS 123, which also requires that the information be determined as if the Company had accounted for grants subsequent to December 31, 1994 under a method specified by SFAS 123. Options granted were estimated using the Black-Scholes valuation model.

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Stock option activity was as follows:

	Number of Shares	Weighted Average Exercise Price ($)
Balance at January 1, 2006	2,600,000	0.15
Granted	250,000	0.13
Exercised	--	
Forfeited or expired	(250,000)	0.15
Balance at June 30, 2006	2,600,000	0.15

The following table presents information regarding options outstanding as of June 30, 2006:

Weighted average contractual remaining term - options outstanding	1.18 years
Aggregate intrinsic value - options outstanding	-
Options exercisable	2,350,000
Weighted average exercise price - options exercisable	$.15
Aggregate intrinsic value - options exercisable	-
Weighted average contractual remaining term - options exercisable	1.18 years

There was no intrinsic value for options outstanding or options exercisable since no options were exercised during the six ended June 30, 2006.

The following weighted average assumptions were used:

	Three and Six Months Ended June 30, 2006	Three and Six Months Ended June 30, 2005
Volatility	.751	1.024
Expected life of options (in years)	2	2
Dividend Yield	0.00%	0.00%
Risk free interest rate	6.00%	4.00%
Per share value of options granted	$.06	$.09

As of June 30, 2006, future compensation costs related to nonvested stock options is $14,500. Management anticipates that this cost will be recognized

over a weighted average period of 1.18 years.

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 its wholly-owned subsidiary, Winncom Technologies Corp. ("Winncom") to BlueCoral for $17 million in cash, which is currently being held in escrow per the terms of the Stock Purchase Agreement ("Purchase Agreement").

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Under the terms of the Purchase Agreement, before the sale of Winncom can be completed, a number of conditions must be satisfied or waived. In addition to breaches of the Purchase Agreement, these conditions include, among other matters, the following:

- |X| the Company's stockholders must approve the sale of Winncom at the annual meeting;

- |X| the delivery of certificates by both the Company and BlueCoral; and

- |X| the delivery of the full purchase price ($17,000,000) to the Company.

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.

The net assets and liabilities of the discontinued operations of the distribution segment included in the accompanying consolidated balance sheets at June 30, 2006 and December 31, 2005 are as follows:

	June 30, 2006	December 31, 2005
Current assets:		
Cash and equivalents	$ 8,714,000	$ 103,000
Accounts receivable - trade, net	5,989,000	6,798,000
Accounts receivable - vendors, net	488,000	766,000
Inventory, net	5,217,000	5,188,000
Construction in progress	8,103,000	5,900,000
Other current assets	183,000	730,000
Total current assets	28,694,000	19,485,000
Property and equipment, net	113,000	90,000
Other assets:		
Goodwill, net	10,824,000	10,824,000
Deposits	130,000	125,000
Total assets	$39,761,000	$30,524,000
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 5,408,000	$10,060,000

Bank debt - current	2,744,000	1,459,000
Accrued expenses	485,000	455,000
Billings in excess of recognized income	15,169,000	896,000
Total current liabilities	$23,806,000	12,870,000
Bank debt, less current portion	--	2,469,000
Total liabilities	$23,806,000	$15,339,000

Information related to the discontinued operations for the three months and six months ended June 30, 2006 and 2005 are as follows:

	Three Months Ended June 30,		Six Months En
	2006	2005	2006
Sales, net	$ 8,672,000	$ 6,417,000	$ 16,072,000
Contract revenue	7,287,000	--	10,090,000
Total revenue	15,959,000	6,417,000	26,162,000
Cost of sales	7,497,000	5,344,000	13,859,000
Cost of contract revenue	6,777,000	--	9,370,000
Total cost of goods sold	14,274,000	5,344,000	23,229,000
Gross profit	1,685,000	1,073,000	2,933,000
Operating expenses:			
Selling, general and administrative expenses	1,136,000	945,000	2,101,000
Income from operations	549,000	128,000	832,000
Other income (expense):			
Interest expense, net	(27,000)	(28,000)	(65,000)
Other income	25,000	40,000	102,000
Total other income (expense)	(2,000)	12,000	37,000
Income before income taxes	547,000	140,000	869,000
(Provision) Benefit for income taxes	(61,000)	(8,000)	(74,000)
Net Income	$ 486,000	$ 132,000	$ 795,000

Approximately $9.3 million and $14 million, respectively, of the total sales for the three months and six months ended June 30, 2006 represented foreign sales in Eastern Europe which includes Russia, Kazakhstan and Uzbekistan. The increase in foreign sales is largely due to the long term construction contract in

Kazakhstan.

Approximately $1.7 million and $2.9 million, respectively, of the total sales for the three months and six months ended June 30, 2005 represented foreign sales in Eastern Europe which includes Russia, Kazakhstan and Uzbekistan.

On October 1, 2003 our subsidiary Winncom, executed a new $4,000,000 line-of-credit agreement with a bank with interest at prime plus .5% (8.25% at March 31, 2006) 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% (8.50% at March 31, 2006). The term loan will become due on October 26, 2006. Substantially all of the assets of Winncom are collateral on the line of credit and the term loan.

The October 1, 2003 line of credit agreement contains several covenants, which, among other things, require that Winncom maintain certain financial ratios as defined in the agreement. In addition, the agreement limits the payment of management fees by Winncom to the Company, and also limits dividends and the purchase of property and equipment. As of June 30, 2006 Winncom was in compliance with these covenants.

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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 only entered into after Kazakhtelecom agreed to fully guarantee the repayment of Winncom's borrowings under the Line of Credit Agreement. The Line of Credit Agreement is only collateralized by the guarantee of Kazakhtelecom and Kazakhtelecom will 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 that balance still remains at June 30, 2006 and December 31, 2005.

	June 30, 2006	December 31, 2005
Bank line of credit - Winncom	$1,368,000	$2,469,000
Foreign bank line of credit - Winncom	1,334,000	1,334,000
Bank term loan - Winncom	42,000	125,000
	2,744,000	3,928,000
Less current portion	2,744,000	1,459,000
Long-term portion	$ --	$2,469,000

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 for a total of approximately $55,000,000.

The first phase of the contract is expected to be completed in 2006 and is expected to generate revenues of approximately $28 million of which $2.6 million has already been recognized in 2005.

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 total of contract costs. At June 30, 2006 a significant amount of equipment was purchased and shipped to the contract site the uninstalled portion of the 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.

Total contract revenue recognized for the three months and six months ended June 30, 2006 was $7,287,000 and $10,090,000, respectively. No contract revenue was recorded for the three months and six months ended June 30, 2005.

The following amounts relate to the aggregate of contracts in progress as of June 30, 2006 and December 31, 2005.

	June 30, 2006	December 31, 2005
Costs incurred to date	$ 19,769,000	$ 8,196,000
Contract costs recognized in 2005	(2,296,000)	--
Contract costs recognized in 2006	(9,370,000)	(2,296,000)
Construction in progress	$ 8,103,000	$ 5,900,000
Amounts billed	$ 27,891,000	$ 3,528,000
Revenue recognized in 2005	(2,632,000)	(2,632,000)
Revenue recognized in 2006	(10,090,000)	--
Billings in excess of recognized income	$ 15,169,000	$ 896,000

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		Six Mont
	June 30, 2006	June 30, 2005	June 30, 2006
Numerator: Net income (loss) from continuing operations	$ (436,000)	$ 75,000	$ (715,000)
Numerator: Net income from discontinued operations	$ 486,000	$ 132,000	$ 795,000
Denominator:			
Denominator for basic earnings per share - weighted average shares	154,319,700	154,017,000	154,310,300
Effect of dilutive securities			
Employee stock options	88,000	31,000	112,500
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversion	154,407,700	154,048,000	154,422,800
Basic earnings (loss) per share, continuing operations	$ (.003)	*	$ (.005)
Diluted earnings (loss) per share, continuing operations	$ (.003)	*	$ (.005)
Basic earnings per share, discontinued operations	$ .003	$ .001	$ .005
Diluted earnings per share, discontinued operations	$ .003	$ .001	$ .005

* Less than $.001 per share

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:

	June 30, 2006	December 31, 2005
Raw materials	$ 1,153,000	$ 954,000
Work in progress	173,000	129,000
Finished goods	471,000	416,000
	1,797,000	1,499,000
Inventory reserve	(627,000)	(580,000)
Net inventory	$ 1,170,000	$ 919,000

Note 5. Revolving Bank Loan Agreements

The Company entered into a financing agreement (the "WFBC Facility") with Wells Fargo Business Credit, Inc. ("WFBC"), on December 9, 2003. The financing agreement was for a term of one year and was renewable for additional one-year terms. The WFBC Facility provided for the sale of accounts receivable by the Company to WFBC at a 1% discount for the first 15 days and an additional .055 of 1% per day until the account receivable is paid in full. Sales of accounts receivable and advances under the WFBC Facility were subject to conditions and restrictions, including, without limitation, accounts receivable eligibility restrictions, verification, and approval. Obligations under the WFBC Facility were collateralized by substantially all of the assets of the Company. Advances under the WFBC Facility were made at the sole discretion of WFBC, even if the accounts receivable offered by ARC for sale to WFBC satisfied all necessary conditions and restrictions. WFBC was under no obligation to purchase accounts receivable from the Company or to advance any funds or credit to the Company under the WFBC Facility. This financing agreement was terminated on May 10, 2005.

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 a maturity of one year, with interest at 2% over prime (10.25% at June 30, 2006), 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 Wireless Inc.("Starworks"), but excluding Winncom Technologies Corp. The borrowing base is calculated on a percentage of trade accounts receivable and inventory for ARC and Starworks combined. As of June 30, 2006 and December 31, 2005, ARC was in compliance with these covenants. The balance outstanding on the revolving line of credit at June 30, 2006 and December 31, 2005 was $1,234,000 and $554,000, respectively.

Note 6. Equity Transactions

During the quarter ended June 30, 2006, the Company recorded the issuance of 29,629 shares of common stock to a director for outstanding obligations for accrued directors' fees in the amount of $4,000.

For the quarter ended March 31, 2005, the Company recorded the issuance of 3,332 shares of common stock to directors for outstanding obligations for accrued directors' fees in the amount of $500. In addition, during the quarter ended March 31, 2005, 20,000 shares of common stock were cancelled in a dispute

regarding shares issued for consulting fees in 2001.

In May 2005 the Company contributed 407,488 shares of common stock, valued at $57,000, into the ARC Wireless Solutions, Inc. 401(k) Plan as an employer matching contribution for the Plan year 2004.

Note 7. Recent Accounting Pronouncements

On February 23, 2006, the FASB issued Staff Position No. FAS 123(R)-4, Classification of Options or Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement Upon the Occurrence of a Contingent Event ("FSP No. FAS 123(R)-4"). FSP No. FAS 123(R)-4 requires that an award of stock options or similar instruments that otherwise meet the criteria for equity classification, but contains a cash settlement feature that can require the entity to settle the award in cash only upon the occurrence of a contingent event that is outside the employee's control, should be classified as a liability only when the event is probable of occurring. FSP No. FAS 123(R)-4 is effective for the Company's first reporting period beginning after February 3, 2006. The Company's management does not believe that the adoption of FSP No. FAS 123(R)-4 will have a material effect on the Company's financial position, cash flows, or results of operations.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments ("SFAS 155"), which amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities . SFAS 155 simplifies the accounting for certain derivatives embedded in other financial instruments by allowing them to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis. The statement also clarifies and amends certain other provisions of SFAS No. 133 and SFAS No. 140. SFAS 155 is effective for all financial instruments acquired, issued, or subject to a remeasurement event occurring in fiscal years beginning after September 15, 2006. We do not expect the adoption of SFAS 155 to have an impact on our results of operations or financial condition.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets--an amendment to FASB Statement No. 140 ("SFAS 156"). SFAS 156 requires that all separately recognized servicing rights be initially measured at fair value, if practicable. In addition, this statement permits an entity to choose between two measurement methods (amortization method or fair value measurement method) for each class of separately recognized servicing assets and liabilities. This new accounting standard is effective January 1, 2007. We do not expect the adoption of SFAS 156 to have an impact on our results of operations or financial condition.

In June 2006, the FASB ratified the consensus reached by the EITF on EITF Issue No. 05-01, Accounting for the Conversion of an Instrument That Becomes Convertible Upon the Issuer's Exercise of a Call Option ("EITF 05-01"). The EITF consensus applies to the issuance of equity securities to settle a debt instrument that was not otherwise currently convertible but became convertible upon the issuer's exercise of call option when the issuance of equity securities is pursuant to the instrument's original conversion terms. The adoption of EITF 05-01 is not expected to have an impact on our results of operations or financial condition.

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109 ("FIN 48"). This interpretation clarifies the application of SFAS 109 by defining a criterion than an individual tax position must meet for any part of the benefit of that

position to be recognized in an enterprise's financial statements and also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods and disclosure. FIN 48 is effective for our fiscal year commencing May 1, 2007. At this time, we have not completed our review and assessment of the impact of adoption of FIN 48.

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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 pending sale of Winncom, which is the Distribution segment, 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 for the three months ended June 30, 2006 and 2005 are as follows:

		Manufacturing	Cable	Corporate
Net Sales	2006	$ 1,722,000	$ 189,000	$ (87,000)
	2005	1,677,000	100,000	(86,000)
Net earnings (Loss) from continuing operations	2006	(211,000)	17,000	(242,000)
	2005	284,000	(4,000)	(205,000)
Earnings (Loss) from continuing operations before income taxes	2006	(174,000)	17,000	(242,000)
	2005	284,000	(4,000)	(205,000)
Identifiable Assets	2006	4,049,000	207,000	(916,000)
	2005	3,190,000	183,000	(930,000)

Financial information regarding the Company's two continuing operating segments for the six months ended June 30, 2006 and 2005 are as follows:

		Manufacturing	Cable	Corporate
Net Sales	2006	$ 3,227,000	$ 339,000	$ (193,000)
	2005	2,769,000	161,000	(153,000)
Net earnings (Loss) from continuing operations	2006	(256,000)	13,000	(472,000)
	2005	256,000	(16,000)	(380,000)

Earnings (Loss) from continuing operations before income taxes	2006	(273,000)	13,000	(472,000)
	2005	256,000	(16,000)	(380,000)
Identifiable Assets	2006	4,049,000	207,000	(916,000)
	2005	3,190,000	183,000	(930,000)

Corporate represents the operations of the parent Company, including 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 June 30, 2006 and 2005

Total revenues were $1.824 million and $1.691 million for the three months period ended June 30, 2006 and June 30, 2005, respectively. The increase in revenues during the three months ended June 30, 2006 compared to the three months ended June 30, 2005 is attributable to 1) an increase in revenues from our Wireless Communications Solutions Division from $1.677 million for the three months ended June 30, 2005 to $1.721 million for the three months ended June 30, 2006; and 2) an increase in revenues from our subsidiary, Starworks, from $100,000 for the three months ended June 30, 2005 to $189,000 for the three months ended June 30, 2006. Revenues from the Wireless Communication Solutions Division in the first and second quarter of 2005 were reduced primarily as a result of management's decision to withhold shipments and minimize the Company's risk to a significant customer whose credit privileges were suspended due to delinquent payments. The customer had a recapitalization of its company and shipments were reinstated in the third quarter of 2005.

Gross profit margin was 22% and 45% for the three months ended June 30, 2006 and June 30, 2005, respectively. The decrease in gross margin for the three months ended June 30, 2006 as compared to the three months ended June 30, 2005 is primarily the result of 1) lower margins at the Wireless Communications Solutions Division due to significant increases in component costs including aluminum, copper and plastic as well as additional labor costs associated with the introduction and manufacturing of several new products and product lines. The Company has taken steps in the third quarter of 2006 to improve its gross margin by shifting production of certain product lines to China through our new subsidiary, ARC Wireless Hong Kong Limited.

Selling, general and administrative expenses (SG&A) increased by $117,000 for the three months ended June 30, 2006 compared to June 30, 2005 with $63,000 of the increase due to salaries and wages, including costs associated with the organization of ARC Wireless Hong Kong Limited. Other increases in SG&A costs are audit fees, directors fees and outside engineering services. SG&A as a percent of total revenues increased from 38% for the three months ended June30, 2005 to 42% for the three months ended June 30, 2006. Salaries and wages, including commissions, remain the largest component of SG&A constituting 59% and 60% of the total SG&A for the three months ended June 30, 2006 and June 30, 2005, respectively.

Net interest expense was $33,000 for the three months ended June 30, 2006 compared to $44,000 for the three months ended June 30, 2005. Although the average balance outstanding on all lines of credit and capital lease obligations was $1.2 million for the three months ended June 30, 2006 compared to $667,000

for the three months ended June 30, 2005, the interest rate that we were charged in 2006 was nearly half of what was being charged by the factoring of trade accounts receivable in 2005, which terminated in May 2005 when we established a new revolving bank line of credit.

The Company had a net loss from continuing operations of $436,000 for the three months ended June 30, 2006 as compared to net income from continuing operations of $75,000 for the three months ended June 30, 2005. While overall revenues increased by $133,000 from 2005 to 2006, there was a decrease in gross margin from 45% in 2005 to 22% in 2006, an increase in SG&A expenses of $118,000. In addition, in 2006, the provision for income taxes of $37,000 was due to a decrease in deferred income tax assets.

Results of Discontinued Operations for the Three Months Ended June 30, 2006 and June 30, 2005 (See Note 2, Discontinued Operations for the detailed operating results of the discontinued operations)

Winncom had a 148% increase in revenues comparing the three months ended June 30, 2006 to the three months ended June 30, 2005. The increase of nearly $9.5 million is the result of a 35% increase in its distribution business revenues at its historical gross margin of approximately 13.5% and a $7.3 million increase in its long term contract revenue associated with the Kazakhstan project for

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which there was no corresponding revenue for the same period in 2005. The margin recognized on the long term construction contract was approximately 7% for the three months ended June 30, 2006. Because the gross margin on the long term contract is lower then the gross margin for normal distribution revenues, while revenues increased 148% comparing 2006 to 2005, the increase in gross margin was 57%.

Operating expenses increased $191,000 or 20% comparing 2006 to 2005, with substantially all of the increase due to an increase in salaries and wages. Operating expenses as a percentage of revenue substantially decreased from 15% for the three months ended June 30, 2005 to 7% for the three months ended June 30, 2006.

Interest expense increased slightly from $27,000 for the three months ended June 30, 2005 to $28,000 for the three months ended June 30, 2006. Although the average balance outstanding on revolving lines of credit and other bank debt decreased in 2006 compared to 2005, the prime interest rate increased from 6% to 8% during the period June 30, 2005 to June 30, 2006 and the interest rate on the foreign bank debt is 13%, while no such debt existed for the three months ended June 30, 2005.

Other income primarily consists of purchase discounts which were less in 2006 than in 2005 due to a cutback in vendor discounts by one of Winncoms largest vendors.

The increase in the provision for income taxes for the three months ended June 30, 2006 compared to June 30, 2005 is primarily the result of an increase in pretax net income from discontinued operations, some of which is offset by losses from continuing operations.

The increase in the net income from discontinued operations from $132,000 for the three months ended June 30, 2005 to $486,000 for the three months ended June 30, 2006 is primarily due to the increase in revenues and in particular, the increase in the contract revenue.

Results of Continuing Operations For the Six Months Ended June 30, 2006 and June

30, 2005

Total revenues were $3.4 million and $2.8 million for the six-month period ended June 30, 2006 and June 30, 2005, respectively. The increase in revenues during the six months ended June 30, 2006 compared to the six months ended June 30, 2005 is attributable to 1) an increase in revenues from our Wireless Communications Solutions Division from $2.7 million for the six months ended June 30, 2005 to $3.2 million for the six months ended June 30, 2006; and 2) an increase in revenues from our subsidiary, Starworks, from $160,000 for the six months ended June 30, 2005 to $340,000 for the six months ended June 30, 2006. Revenues from the Wireless Communication Solutions Division in the first and second quarter of 2005 were reduced primarily as a result of management's decision to withhold shipments and minimize the Company's risk to a significant customer whose credit privileges were suspended due to delinquent payments. The customer had a recapitalization of its company and shipments were reinstated in the third quarter of 2005.

Gross profit margin was 24% and 40% for the six months ended June 30, 2006 and 2005, respectively. The decrease in gross margin for the six months ended June 30, 2006 as compared to the six months ended June 30, 2005 is primarily the result of 1) lower margins at the Wireless Communications Solutions Division due to significant increases in component costs including aluminum, copper and plastic as well as additional labor costs associated with the introduction and manufacturing of several new product and product lines to a change in product mix, competitive pricing pressures and the costs associated with the introduction and manufacturing of several new products. The Company has taken steps in the third quarter of 2006 to improve its gross margin by shifting production of certain product lines to China through our new subsidiary, ARC Wireless Hong Kong Limited.

Selling, general and administrative expenses (SG&A) increased by $233,000 for the six months ended June 30, 2006 compared to June 30, 2005 with $136,000 of the increase due to salaries and wages, including costs associated with the organization of ARC Wireless Hong Kong Limited. Other increases in SG&A costs

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are audit fees, directors fees and outside engineering services. SG&A as a percent of total revenues decreased from 45% for the six months ended June30, 2005 to 44% for the six months ended June 30, 2006. Salaries and wages, including commissions, remain the largest component of SG&A constituting 59% and 60% of the total SG&A for the six months ended June 30, 2006 and 2005, respectively.

Net interest expense was $60,000 for the six months ended June 30, 2006 compared to $71,000 for the six months ended June 30, 2005. Although the average balance outstanding on all lines of credit and capital lease obligations was $1 million for the six months ended June 30, 2006 compared to $600,000 for the six months ended June 30, 2005, the interest rate that we were charged in 2006 was nearly half of what was being charged by the factoring of trade accounts receivable in 2005, which terminated in May 2005 when we established a new revolving bank line of credit.

Other income for the six months ended June 30, 2005 included a gain on sale of assets of $61,000 and there were no gains in 2006.

The Company had a net loss from continuing operations of $715,000 for the six months ended June 30, 2006 as compared to a net loss from continuing operations of $140,000 for the six months ended June 30, 2005. While overall revenues increased by $600,000 from 2005 to 2006, there was a decrease in gross margin from 40% in 2005 to 24% in 2006, an increase in SG&A expenses of $233,000 and a

$61,000 decrease in other income. In addition, in 2006, the benefit for income taxes of $21,000 was due to an increase in deferred income tax assets.

Results of Discontinued Operations For the Six Months Ended June 30, 2006 and June 30, 2005 (See Note 2, Discontinued Operations for the detailed operating results of the discontinued operations)

Winncom had a 95% increase in revenues comparing the six months ended June 30, 2006 to the six months ended June 30, 2005. The increase of nearly $12.8 million is the result of a 20% increase in its distribution business at its historical gross margin of approximately 13.5% and a $10.1 million increase in its long term contract revenue associated with the Kazakhstan project for which there was no corresponding revenue for the same period in 2005. The margin recognized on the long term construction contract was approximately 7% for the six months ended June 30, 2006. Because the gross margin on the long term contract is lower then the gross margin for normal distribution revenues, while revenues increased 95% comparing 2006 to 2005, the increase in gross margin was 38%.

Operating expenses increased $174,000 or 9% comparing 2006 to 2005, with substantially all of the increase due to an increase in salaries and wages. Operating expenses as a percentage of revenue substantially decreased from 14% for the six months ended June 30, 2005 to 8% for the six months ended June 30, 2006.

Interest expense decreased slightly from $69,000 for the six months ended June 30, 2005 to $65,000 for the six months ended June 30, 2006. Although the average balance outstanding on revolving lines of credit and other bank debt decreased in 2006 compared to 2005, the prime interest rate increased from 6% to 8% From June 30, 2005 to June 30, 2006 and the interest on the foreign bank debt was 13% and no such debt existed for the six months ended June 30, 2005.

Other income primarily consists of purchase discounts which were less in 2006 than in 2005 due to a cutback in vendor discounts by one of Winncoms' largest vendors.

The increase in the provision for income taxes for the six months ended June 30, 2006 compared to June 30, 2005 is primarily the result of an increase in pretax net income of the discontinued operations partially offset by losses from continuing operations.

The increase in the net income from discontinued operations from $246,000 for the six months ended June 30, 2005 to $794,000 for the six months ended June 30, 2006 is primarily due to the increase in revenues and in particular, the increase in the contract revenue.

Financial Condition

The net cash used in operating activities from continuing operations was $562,000 for the six months ended June 30, 2006, and net cash provided by operating activities from continuing operations was $3,000 for the six months ended June 30, 2005. The net cash used in operating activities from continuing operations in 2006 was primarily due to the net loss incurred for the six months ended June 30, 2006. The net cash from continuing operations in 2005 was primarily due to a decrease in trade accounts receivables and inventory offset by decreases in trade accounts payable and other accrued expenses. In addition, in determining net cash from continuing operations, the net loss in 2005 is offset by non cash deductions of depreciation and the expense associated with the issuance of common stock and common stock options.

The net cash used in investing activities from continuing operations was $87,000 for the six months ended June 30, 2006 compared to $21,000 for the six months ended June 30, 2005, primarily the result of expenditures for patents and equipment.

For the six months ended June 30, 2006, the Company was able to draw upon its line of credit by nearly $679,000, resulting in the net cash provided by financing activities for continuing operations. For the six months ended June 30, 2005 the Company was able to draw upon its line of credit by nearly $229,000, resulting in the net cash provided by financing activities for continuing operations. The draws on the lines of credit in 2006 and 2005 helped fund operating losses.

The Company's working capital at June 30, 2006, excluding net assets and liabilities from discontinued operations was $458,000 compared to $1.2 million at December 31, 2005. The decrease as of June 30, 2006 is primarily due to the net loss from continuing operations.

We entered into a financing agreement (the "WFBC Facility") with Wells Fargo Business Credit, Inc. ("WFBC"), on December 9, 2003. The financing agreement was for a term of one year and was renewable for additional one-year terms. The WFBC Facility provided for the sale of accounts receivable by the Company to WFBC at a 1% discount for the first 15 days and an additional .055 of 1% per day until the account receivable is paid in full. Sales of accounts receivable and advances under the WFBC Facility were subject to conditions and restrictions, including, without limitation, accounts receivable eligibility restrictions, verification, and approval. Obligations under the WFBC Facility were collateralized by substantially all of the assets of the Company. Advances under the WFBC Facility were made at the sole discretion of WFBC, even if the accounts receivable offered by ARC for sale to WFBC satisfied all necessary conditions and restrictions. WFBC was under no obligation to purchase accounts receivable from the Company or to advance any funds or credit to the Company under the WFBC Facility. This financing agreement was terminated on May 10, 2005.

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 a maturity of one year, with interest at 2% over prime (10.25% at June 30, 2006), 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 Wireless Inc.("Starworks"), but excluding Winncom Technologies Corp. The borrowing base is calculated on a percentage of trade accounts receivable and inventory for ARC and Starworks combined. As of June 30, 2006 and December 31, 2005, ARC was in compliance with these covenants. The balance outstanding on the revolving line of credit at June 30, 2006 and December 31, 2005 was $1,234,000 and $554,000, respectively.

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Management believes that current working capital and available borrowings on new and existing bank lines of credit, together with proceeds from the sale of Winncom, will be sufficient to allow the Company to maintain its operations through December 31, 2006 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 Operation", 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 Form 10-K for the year ended December 31, 2005. There have been no material changes to the Company's risk factors from those disclosed in the Company's 2005 Annual Report on 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 notes payable to the banks which has a variable interest rate equal to the existing bank prime rate (8.25% as of June 30, 2006) plus two percent. The prime interest rate increased from 7% to 8.25% between December 31, 2005 and June 30, 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 $12, assuming borrowed amounts remain outstanding at the average balance for the six months ended June 30, 2006. 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.

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 or other factors that could significantly affect those controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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, 2005. There have been no material changes from the risk factors previously disclosed in our Form 10-K for the fiscal year ended December 31, 2005.

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

On March 15, 2005, the Company recorded the issuance of 3,332 shares of common stock to directors for accrued directors' fees in the amount of $500. 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.

In May 2006, the Company recorded the issuance of 29,629 shares of common stock to a director for outstanding obligations for accrued directors' 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 6. Exhibits

Exhibit No.	Description
31.1 and 31.2	Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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: August 17, 2006

By: /s/ Randall P. Marx
Randall P. Marx
Chief Executive Officer

Date: August 17, 2006

By: /s/ Monty R. Lamirato
Monty R. Lamirato
Chief Financial Officer

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