ARC WIRELESS SOLUTIONS INC
Form 10QSB
November 14, 2002

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

FORM 10 - QSB

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

For the quarterly period ended September 30, 2002.

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

Utah
(State or other jurisdiction of incorporation)

000-18122	87-0454148
(Commission File Number)	(IRS Employer Identification Number)

4860 Robb Street, Suite 101
Wheat Ridge, Colorado, 80033-2163
(Address of principal executive offices including zip code)

(303) 421-4063
(Small Business Issuer telephone number, including area code)

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

As of November 1, 2002, the Registrant had 153,219,690 shares outstanding of its $.0005 par value common stock.

Transitional Small Business Disclosure Format (Check One):
Yes No X

ARC Wireless Solutions, Inc.

Quarterly Report on FORM 10-QSB For The Period Ended

September 30, 2002

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

ARC Wireless Solutions, Inc.
Consolidated Balance Sheets

	September 30, 2002 (unaudited)	December 31, 2001 *
Assets		
Current assets:		
Cash	$ 264,000	$ 345,000
Accounts receivable - customers, net	5,154,000	4,687,000
Accounts receivable - vendors, net	1,273,000	1,214,000
Inventory, net	5,974,000	5,938,000
Other current assets	151,000	117,000
Total current assets	12,816,000	12,301,000
Property and equipment, net	561,000	729,000
Other assets:		
Intangible assets including goodwill, net	10,935,000	10,907,000
Deposits	69,000	64,000
Total assets	$ 24,381,000	$ 24,001,000
Liabilities and stockholders' equity		
Current liabilities:		
Bank line of credit	$ 3,865,000	$ 925,000
Accounts payable	5,057,000	5,273,000
Current portion of capital lease obligations	12,000	11,000
Accrued expenses	413,000	503,000
Total current liabilities	9,347,000	6,712,000
Capital lease obligations, less current portion	11,000	21,000
Bank line of credit, less current portion		2,621,000
Total liabilities	9,358,000	9,354,000
Commitments		
Stockholders' equity:		
Common stock	78,000	77,000
Preferred stock		--
Treasury stock	(1,192,000)	(1,117,000)
Additional paid-in capital	21,659,000	21,522,000
Accumulated deficit	(5,522,000)	(5,835,000)
Total stockholders' equity	15,023,000	14,647,000
Total liabilities and stockholders' equity	$ 24,381,000	$ 24,001,000

* These numbers were derived from the audited financial statements for the year

ended December 31, 2001.
See accompanying notes.

ARC Wireless Solutions, Inc.
Consolidated Statements of Operations

	Three months ended September 30,		
	2002	2001	20
	(unaudited)		
Sales, net	$ 8,532,000	$ 7,294,000	$ 24,
Cost of sales	7,313,000	6,022,000	19,
Gross profit	1,219,000	1,272,000	4,
Operating expenses:			
Selling, general and administrative expenses	1,457,000	1,452,000	4,
Amortization of purchased intangibles	--	262,000	
Total operating expenses	1,457,000	1,714,000	4,
Income (loss) from operations	(238,000)	(442,000)	
Other income (expense):			
Interest expense, net	(50,000)	(61,000)	(
Gain from debt cancellation	--		
Other income	13,000	40,000	
Total other income (expense)	(37,000)	(21,000)	
Income (loss) before income taxes	(275,000)	(463,000)	
Provision for income taxes	(19,000)	(1,000)	
Net Income (loss)	$ (294,000)	$ (464,000)	$
Net loss per share (basic and diluted)	$ (.002)	$ (.003)	$

See accompanying notes.

ARC Wireless Solutions, Inc.
Consolidated Statements of Cash Flows

	Nine Months Ended Septem	
	2002	
	(unaudited)	
Operating activities		
Net income (loss)	$ 313,000	$(1
Adjustments to reconcile net income (loss) to net cash used in Operating activities:		
Depreciation and amortization	228,000	
Debt cancellations	(226,000)	
Loss on disposition of assets	9,000	
Non-cash expense for issuance of stock and options	19,000	
Changes in operating assets and liabilities:		
Restricted cash	--	
Accounts receivable, trade and vendor	(526,000)	(1
Inventory	(36,000)	
Prepaids and other current assets	(34,000)	
Deposits	(5,000)	
Accounts payable and accrued expenses	(80,000)	(1
Net cash used in operating activities	(338,000)	(3
Investing activities		
Patent acquisition costs	(36,000)	
Acquisition of businesses, net of cash acquired	--	
Purchase of plant and equipment	(61,000)	
Net cash used in investing activities	(97,000)	
Financing activities		
Repayment of notes and capital lease obligations	(9,000)	
Net borrowings under lines of credit	319,000	1
Proceeds from private placement, net	119,000	
Proceeds from exercise of common stock options	--	
Acquisition of treasury shares	(75,000)	
Net cash provided by financing activities	354,000	2
Net decrease in cash	(81,000)	
Cash, beginning of period	345,000	1
Cash, end of period	$ 264,000	$
Supplemental cash flow information:		
Cash paid for interest	$ 150,000	$
Equipment acquired under capital lease	$ --	$

See accompanying notes.

ARC Wireless Solutions, Inc.
Notes to Consolidated Financial Statements
September 30, 2002

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B. 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-KSB for the year ended December 31, 2001.

The Company operates in three business segments, which are identified as distribution of wireless communications products, antenna design and manufacturing, and cable products, 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 nine months ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002 or any future period.

Certain prior-year amounts have been reclassified to conform to the current-year presentation. These reclassifications had no effect on the results of operations or shareholders' equity as previously reported.

Note 2. Consolidation Policy

The accompanying unaudited consolidated financial statements include the accounts of ARC Wireless Solutions, Inc. ("ARC") 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.

Note 3. Earnings Per Share

As of December 31, 1998, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share" (SFAS 128). SFAS 128 provides for the calculation of "Basic" and "Dilutive" earnings per share. Basic earnings 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 per share reflect the potential dilution of securities that could share in the earnings of the entity. For the three months and nine months ended September 30, 2001, the Company incurred net losses. Stock options and stock warrants totaling 1,000,000 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, respectively, for the three months and nine months ended September 30, 2001.

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 September 30, 2002	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2002
Numerator: Net Income (Loss)	$ (294,000)	$ (464,000)	$ 313,000
Denominator:			
Denominator for basic earnings per share - weighted average shares	153,300,000	149,965,000	153,100,000
Effect of dilutive securities			
Employee stock options	--	--	400,000
Common stock warrants	--	--	--
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversion	153,300,000	149,965,000	153,500,000
Basic earnings per share	$ (.002)	$ (.003)	$ .002
Diluted earnings per share	$ (.002)	$ (.003)	$ .002

Note 4. Revolving Bank Loan

Winncom Technologies Corp. had two bank lines of credit bearing an interest rate of prime plus 0.5% (5.25% on September 30, 2002). One line of credit was a revolving line of credit for $3 million, which expired April 30 2003, of which $2.8 million was outstanding at September 30, 2002. The other line of credit was for $1 million, of which $1 million was outstanding at September 30, 2002 and which was due July 31, 2002. As of October 29, 2002 the two outstanding lines of credit were combined into a single $4 million revolving line of credit due April 30, 2003. The credit line is collateralized by accounts receivable, inventory and otherwise unencumbered fixed assets of Winncom. The credit line provides that Winncom is prohibited from guaranteeing any obligations of, or paying or advancing any distribution or other amount to, ARC Wireless Solutions, Inc. or any of its subsidiaries. ARC is a general corporate guarantor of this loan.

Note 5. Acquisitions

On August 21, 2001 the Company acquired certain commercial assets of the wireless communications products line of Ball Aerospace & Technologies Corp. (BATC), a wholly owned subsidiary of Ball Corporation, for $925,389. The assets

acquired consist mainly of raw materials and finished goods inventory, testing and production equipment, and the purchase price has been allocated to these specifically identifiable assets. In November 2001 the purchase price was adjusted in accordance with the Purchase Agreement for variances in actual assets delivered to the Company by BATC. BATC refunded to the Company $99,271 pursuant to the Agreement.

Note 6. Equity Transactions

In July 2001, the Company offered each investor who had purchased units ("Unit Investor") of common stock and common stock purchase warrants ("Warrants") in the Company's private placement in 2000 the opportunity to either (1) exchange

each three Warrants for one share of Common Stock ("Alternative A"), or (2) reduce the exercise price of each Warrant from $1.50 per share to $1.00 per share upon the Unit Investor's agreement to reduce the price associated with the Company's 30-day notice of redemption from $1.75 to $1.50 ("Alternative B"); provided, however, that if the Unit Investor determined to participate in either Alternative A or B, the Unit Investor was required to waive the Company's obligation to register the Unit Investor's sale or other transfer of the Registrable Securities (the "Registration Obligation").

Each Unit Investor electing Alternative A also was required to enter into a Restricted Sales Agreement (the "Restricted Sales Agreement") that includes the following restrictions with respect to the sale of all shares of Common Stock owned by the Unit Investor, except for any shares purchased subsequent to June 30, 2001:

- On any trading day during the one-year period beginning on the day Alternative A goes into effect (which was August 9, 2001), the Unit Investor may sell or otherwise dispose of up to the Pro Rata Share, as defined below, for that Unit Investor, of (i) 15 percent of the reported trading volume of the Common Stock for the immediately preceding trading day if the reported trading volume of the Common Stock for the prior trading day was 400,000 shares or less, or (ii) 20 percent of the reported trading volume of the Common Stock for the immediately preceding trading day if the reported trading volume of the Common Stock for the prior trading day was greater than 400,000 shares; and

- On any trading day during the one-year period between the first and second anniversaries of the effective date of Alternative A, the Unit Investor may sell or otherwise dispose of up to the Pro Rata Share for that Unit Investor of (i) 20 percent of the reported trading volume of the Common Stock for the immediately preceding trading day if the reported trading volume of the Common Stock for the prior trading day was 400,000 shares or less, or (ii) 25 percent of the reported trading volume of the Common Stock for the immediately preceding trading day if the reported trading volume of the Common Stock for the prior trading day was greater than 400,000 shares.

The number of shares of Common Stock that the Unit Investor may sell shall not be increased as a result of any failure by the Unit Investor to sell the maximum number of Unit Investor Shares permissible at a prior time.

For purposes of Alternative A, the "Pro Rata Share" of any Unit Investor means the percentage obtained by dividing (1) the number of Units purchased by the

subject Unit Investor in the Year 2000 Placement, by (2) the aggregate total number of Units purchased by all investors in the Year 2000 Placement who agree to the sales restrictions described above (the "Contracting Unit Investors"). Notwithstanding the foregoing, if the aggregate number of Units purchased in the Year 2000 Placement by the Contracting Unit Investors is less than 90 percent of the total number of Units purchased in the Year 2000 Placement by all investors in the Year 2000 Placement, then "Pro Rata Share" shall instead mean the percentage obtained by dividing (X) the number of Units purchased by the subject Unit Investor in the Year 2000 Placement, by (Z) 90 percent of the aggregate number of Units purchased by all investors in the Year 2000 Placement.

As of September 30, 2001 holders representing an aggregate of 13,062,000 Units had agreed to participate in Alternative A and were issued 4,354,003 shares of common stock and holders representing an aggregate of 1,148,000 Units had agreed to participate in Alternative B.

The Company sold 5,000,000 shares of restricted common stock at $.20 per share in a private placement offering through September 2001 from which it received gross cash proceeds of $1,000,000. Related offering expenses were $22,000.

The Company sold 754,545 shares of restricted common stock at $.165 per share in a private placement offering through June 30, 2002 from which it received gross cash proceeds of $124,500. Offering costs associated with this private placement

offering were $6,600. Within 30 days following the filing with the SEC of the Company's Annual Report on Form 10-KSB for the year ended December 31, 2001, the Company was obligated to file a registration statement covering the resale of these shares. This registration statement was filed with the SEC on October 3, 2002.

In January 2002 the Company exercised its option to repurchase the remaining 500,000 shares from the McConnell litigation settlement for $75,000.

In March 2002, the Company issued 200,000 shares of restricted common stock for consulting services valued at $34,000. The consulting agreement provides that, because it was cancelled in September 2002, 100,000 of these shares are required to be returned to the Company. The consultant is claiming the right to retain all 200,000 shares although the Company believes she has no legal basis to do so.

In the second quarter of 2002 the Company recorded the issuance of 13,945 shares of common stock to directors for outstanding obligations for accrued directors fees in the amount of $6,400.

In the third quarter of 2002 the Company recorded the issuance of 7,416 shares of common stock to directors for outstanding obligations for accrued directors fees in the amount of $1,000.

Note 7. Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards No. 141 "Business Combinations" ("SFAS 141") and No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for under the purchase method. For all business combinations for which the date of acquisition is after June 30, 2001, SFAS 141 also establishes specific criteria for the recognition of intangible assets separately from

goodwill and requires unallocated negative goodwill to be written off immediately as an extraordinary gain, rather than deferred and amortized. SFAS 142 changes the accounting for goodwill and other intangible assets after an acquisition. The most significant changes made by SFAS 142 are: 1) goodwill and intangible assets with indefinite lives will no longer be amortized; 2) goodwill and intangible assets with indefinite lives must be tested for impairment at least annually; and 3) the amortization period for intangible assets with finite lives will no longer be limited to forty years. SFAS 142 is effective for fiscal years beginning after December 15, 2001 and as such the Company adopted SFAS 142 effective January 1, 2002. The adoption of Statement SFAS 141 did not have any impact on the Company's financial position or cash flows.

In accordance with SFAS No. 142, the Company discontinued the amortization of goodwill effective January 1, 2002. Additionally, under the new accounting standard, goodwill and other intangible assets will be tested differently than prior to the adoption of SFAS No. 142. The Company is required to perform these impairment tests on an annual basis and has performed the transitional impairment test required upon adoption of SFAS No. 142, using certain valuation techniques, and has determined that no impairment exists at this time. It is possible but not predictable that a change in the Company's wireless business, market capitalization, operating results or other factors could affect the carrying value of goodwill or other intangible assets and cause an impairment write-off. As of September 30, 2002 the Company has approximately $10.8 million of goodwill and other intangible assets subject to SFAS No. 142. Results of operations prior to the adoption of SFAS No. 142 are not restated.

The following reconciles the reported net income (loss) and earnings (loss) per share to that which would have resulted had SFAS No.142 been applied to the three months and nine months ended September 30, 2001.

	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2001
Reported net loss	$ (464,000)	$(1,337,000)
Add: Goodwill amortization, net of tax	262,000	760,000
Adjusted net income (loss)	$ 202,000	$ (631,000)
Reported basic loss per share	$ (.003)	$ (.009)
Add: Goodwill amortization, net of tax, per basic share	.002	.005
Adjusted basic income (loss) per share	$.(001)	$ (.004)

In June 2001, the FASB also approved for issuance SFAS 143 "Asset Retirement Obligations." SFAS 143 establishes accounting requirements for retirement obligations associated with tangible long-lived assets, including (1) the timing of the liability recognition, (2) initial measurement of the liability, (3) allocation of asset retirement cost to expense, (4) subsequent measurement of

the liability and (5) financial statement disclosures. SFAS 143 requires that an asset retirement cost should be capitalized as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. The Company will adopt the statement effective no later than January 1, 2003, as required. The transition adjustment resulting from the adoption of SFAS 143 will be reported as a cumulative effect of a change in accounting principle. The Company does not believe that the adoption of this statement will have a material effect on its financial position, results of operations, or cash flows.

In October 2001, the FASB also approved SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 replaces SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The new accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations, and replaces the provisions of APB Opinion No. 30, Reporting Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, for the disposal of segments of a business. Statement 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. Statement 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The Company adopted the provisions of Statement 144 effective January 1, 2002 and the adoption did not have a material effect on its financial position, results of operations, or cash flows.

Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," effective for fiscal years beginning May 15, 2002 or later that rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt", FASB Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements", and FASB Statement No. 44, "Accounting for Intangible Assets of Motor Carriers". This Statement Amends FASB Statement No. 4 and FASB Statement No. 13, "Accounting for Leases", to eliminate an inconsistency between the required accounting for sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The Company implemented SFAS No. 145 effective July 1, 2002 and the early adoption did not have a material impact on its financial condition or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS 146 requires recording costs associated with exit or disposal activities at their fair values when a liability has been incurred. Under previous guidance, certain exit costs were accrued upon management's commitment to an exit plan, which is generally before an actual liability has been incurred. Adoption of SFAS 146 is required with the beginning of fiscal year 2003. The Company does not anticipate a significant impact on its results of operations from adopting this Statement.

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 three reportable segments that are separate business units that offer different products as follows: distribution of wireless communication products, antenna design and 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 three operating segments for the nine months ended September 30, 2002 and 2001 are as follows:

		Distribution	Manufacturing	Cable	Corporate	
Net Sales	Sept. 2002	$ 18,930,000	$ 5,304,000	$ 393,000	$ (138,000)	$ 2
	Sept. 2001	$ 20,247,000	$ 2,059,000	$ 1,153,000	$ (98,000)	$ 2
Net Earnings (Loss)	Sept. 2002	$ 132,000	$ 441,000	$ (81,000)	$ (179,000)	$
	Sept. 2001	$ 415,000	$ (213,000)	$ (314,000)	$ (1,225,000)	$ (
Earnings (Loss) before Income Taxes	Sept. 2002	$ 189,000	$ 441,000	$ (81,000)	$ (179,000)	$
	Sept. 2001	$ 424,000	$ (213,000)	$ (341,000)	$ (1,198,000)	$ (
Identifiable Assets	Sept. 2002	$ 21,834,000	$ 4,115,000	$ 333,000	$ (1,235,000)	$ 2
	Sept. 2001	$ 21,003,000	$ 3,660,000	$ 3,358,000	$ (1,864,000)	$ 2

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

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Note 9. Critical Accounting Policies

The Company's significant accounting policies are summarized in Note 1 of its consolidated financial statements on Form 10-KSB. The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported therein, including estimates about the effects of matters or future events that are inherently uncertain. Policies determined to be critical are those that have the most significant impact on the Company's financial statements and require management to use a greater degree of judgment and/or estimates. Actual results may differ from these estimates under different assumptions or conditions.

On an on-going basis, management evaluates its estimates and judgments, including those related to allowance for doubtful accounts, inventory valuations and recoverability of intangible assets, including goodwill. Management bases its estimates and judgments on historical experience and on various other factors that are also believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent form other sources. However, future events are subject to change and the best estimates and assumptions routinely require adjustment. Our major operating assets are trade and vendor accounts receivable, inventory, property and equipment and intangible assets. Our reserve for doubtful accounts of $1,143,000 should be adequate for any exposure to loss in our accounts receivable as of September 30, 2002. We have also established reserves for slow moving and obsolete inventories and believe the current reserve of $334,000 is adequate. We depreciate our property and equipment over their estimated useful lives and we have not identified any items that are impaired.

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

Results of Operations, Three Months Ended September 30, 2002 and 2001

Sales were approximately $8.5 million for the three-months ended September 30, 2002 and $7.3 million for the three-months ended September 30, 2001. Revenues from the Wireless Communications Products Division increased from $754,000 for the quarter ended September 30, 2001 to $1,563,000 for the quarter ended September 30, 2002, primarily from revenues from base station antennas which were $770,000 for the quarter ended September 30, 2002 and $190,000 for the quarter ended September 30, 2001 and sales from the new Freedom Antenna which were $249,000 for the quarter ended September 30, 2002 and $0 for the quarter ended September 30, 2001. Revenues from Winncom increased from $6,247,000 for the quarter ended September 30, 2001 to $6,943,000 for the quarter ended September 30, 2002. The increases in the Wireless Communications Products Division revenues and Winncom's revenues were offset by a decrease in Starworks revenues from $312,000 for the quarter ended September 30, 2001 to $109,000 for the quarter ended September 30, 2002.

Gross profit margins were 14.3% and 17.4% for the three-months ended September 30, 2002 and September 30, 2001, respectively. The decrease in gross margin for the quarter ended September 30, 2002 vs. the quarter ended September 30, 2001 is primarily due to Winncom. As a result of product mix, Winncom's profit margins decreased from 16.3% for the quarter ended September 30, 2001 to 11.4% for the quarter ended September 30, 2002. In addition, as a result of some product mix changes at the Wireless Communications Products Division, the profit margins decreased from 32.5% for the quarter ended September 30, 2001 to 29.6% for the quarter ended September 30, 2002. When the Company purchased certain commercial assets of the wireless communications products line of BATC, which consisted of raw materials and finished goods inventory among other assets, these assets were purchased at a substantial discount from their fair market or replacement value. During the quarter ended September 30, 2002, the Wireless Communications Products Division benefited from the sale of portions of the inventory purchased from BATC. Depending on the product mix, the Company may realize additional benefit from the below-market cost of the BATC inventory in the future, but the benefit will diminish as the inventory is depleted and replaced with inventory purchased at current market prices. Based on the Company's estimates of current

replacement costs for the BATC inventory included in cost of goods sold during

the third quarter, the Company estimates that the benefit resulting from inventory purchased at below-market costs was between $25,000 and $50,000 for the quarter ended September 30, 2002. Because the BATC inventory was not purchased until August 21, 2001, only one month's benefit was recognized for the quarter ended September 30, 2001.

Selling, general and administrative expenses (SG&A) increased slightly by $5,000 for the three months ended September 30, 2002 compared to the three months ended September 30, 2001. This slight increase in SG&A is primarily the result of the addition of management and staff as a result of the acquisition of certain commercial assets from BATC, which was partially offset by lower litigation costs incurred this quarter compared to the prior quarter. SG&A as a percent of revenue decreased from 19.9% for the three months ended September 30, 2001 to 17.1% for the three months ended September 30, 2002.

In accordance with SFAS No. 142, the Company discontinued the amortization of goodwill effective January 1, 2002. Consequently, there was no amortization of purchased intangibles for the quarter ended September 30, 2002 as compared to $262,000 in amortization of purchased intangibles for the quarter ended September 30, 2001. (See Note 7)

Net interest expense was $50,000 for the three months ended September 30, 2002 and $61,000 for the three months ended September 30, 2001. The average balance outstanding on the lines of credit was higher by $400,000 for the quarter ended September 30, 2002 as compared to the quarter ended September 30, 2001, but the interest rate was 7% for 2002 as compared to 9% for 2001. The line of credit balance was increased by $925,000 in September 2001 as the proceeds were used to finance the Ball assets acquisition (see Note 6 above.)

The Company had a net loss for the three months ended September 30, 2002 of $294,000 compared to a net loss of $464,000 for the three months ended September 30, 2001 primarily due to the termination of amortization of goodwill effective January 1, 2002 and an increase in revenues, both of which were partially offset by a decrease in gross margin percent from 17.4% for the quarter ended September 30, 2001 to 14.3% for the quarter ended September 30, 2002.

Results of Operations, Nine Months Ended September 30, 2002 and 2001

Sales were $24,489,000 and $23,361,000 for the nine-month periods ended September 30, 2002 and 2001, respectively. The increase of 4.8% comparing the nine months ended September 30, 2002 to the nine months ended September 30, 2001 is attributable to the 152% increase in revenues from the Wireless Communications Products Division from $2.1 million for the nine months ended September 30, 2001 to $5.3 million for the nine months ended September 30, 2002. While revenues from all product lines increased over 2002 the most significant increase in revenues came from base station antennas, which were $2.8 million for the nine months ended September 30, 2002 and $200,000 for the nine months ended September 30, 2001. The increase in the Wireless Communications Products Division revenues were partially offset by a decrease in Starworks revenues from $1,153,000 for the nine months ended September 30, 2001 to $393,000 for the nine months ended September 30, 2002 and a decrease in Winncom revenues from $20.2 million for the nine months ended September 30, 2001 to $18.9 million for the nine months ended September 30, 2002.

Gross profit margins were 18.9% and 17.8% for the nine months ended September 30, 2002 and September 30, 2001, respectively. The increase in gross margin for the nine months ended September 30, 2002 vs. the nine months ended September 30, 2001 is primarily the result of the increase in revenues from the Wireless Communications Products Division, whose products have a higher margin than those of Winncom or Starworks. When the Company purchased certain commercial assets of the wireless communications products line of BATC, which consisted of raw materials and finished goods inventory among other assets, these assets were

purchased at a substantial discount from their fair market or replacement value. During the nine months ended September 30, 2002, the Wireless Communications Products Division benefited from the sale of portions of the inventory purchased from BATC, and this benefit is reflected in higher gross margins. Depending on the product mix, the Company may realize additional benefit from the below-market cost of the BATC inventory in the future, but the benefit will diminish as the inventory is depleted and replaced with inventory purchased at current market prices. Based on the Company's estimates of current replacement costs for the BATC inventory included in cost of goods sold for the nine months ended September 30, 2002, the Company estimates that the benefit resulting from inventory purchased at below-market costs was between $300,000 and $400,000 for the nine months ended September 30, 2002. Because the BATC inventory was not purchased until August 21, 2001, the benefit recognized for the nine months ended September 30, 2001 was approximately $40,000.

Selling, general and administrative expenses (SG&A) decreased by $279,000 for the nine months ended September 30, 2002 compared to the nine months ended September 30, 2001. In addition, SG&A as a percent of revenue decreased from 19.8% for the nine months ended September 30, 2001 to 17.8% for the nine months ended September 30, 2002. The decrease in SG&A comparing 2002 to 2001 is primarily due to legal fees in connection with the Starworks' litigation and certain employee termination costs, which were incurred in 2001 but not in 2002. During the nine months ended September 30, 2001, termination agreements were entered into with the former CEO of the Company and the former CFO of the Company. The former CEO received $63,000 of severance payments plus options to purchase 250,000 shares of the Company's common stock at an exercise price of $0.325 per share and the former CFO received $47,000 of severance payments plus options to purchase 350,000 shares of the Company's common stock at $0.26 per share. The Company recognized $232,000 of expense related to these termination agreements during the nine months ended September 30, 2001, including $122,000 of non-cash compensation related to the issuance of the options. This expense was partially offset by the elimination of $96,000 of accrued bonuses as part of the severance agreements. In addition, the nine months ended September 30, 2001 included $283,000 in expenses related to impairment of assets, adjustments, litigation and other costs of the Kit Company acquisition.

In accordance with SFAS No. 142, the Company discontinued the amortization of goodwill effective January 1, 2002. Consequently, there was no amortization of purchased intangibles for the nine months ended September 30, 2002 as compared to $760,000 in amortization of purchased intangibles for the nine months ended September 30, 2001. (See Note 7.)

Net interest expense was $151,000 for the nine months ended September 30, 2002 compared to $168,000 for the nine months ended September 30, 2001. Although the average balance outstanding on the lines of credit was higher for the nine months ended September 30, 2002 as compared to the nine months ended September 30, 2001, the interest rate was 7.25% for 2002 as compared to 9% for 2001. The line of credit balance was increased by $925,000 in September 2001 as the proceeds were used to finance the Ball assets acquisition. (See Note 6 above.)

During the nine months ended September 30, 2002, the Company realized a gain from debt settlements of $226,000. As a result of the adoption of SFAS 145, the Company classified this amount as other income. There was no gain from debt settlements for the nine months ended September 30, 2001.

The Company had net income for the nine months ended September 30, 2002 of

$313,000 compared to a net loss of $1,337,000 for the nine months ended September 30, 2001 primarily due to five factors: 1) an increase in revenues from $23.4 million for the nine months ended June 30, 2001 to $24.5 million for the nine months ended September 30, 2002, 2) an increase in gross margin percent from 17.8% for the nine months ended September 30, 2001 to 18.9% for the nine months ended September 30, 2002, which resulted partially from the use of inventory at below-market cost and partially from increased sales of higher margin products, 3) a reduction in SG&A expenses relative to revenues from 19.8% in 2001 to 17.8% in 2002, 4) the termination of amortization of goodwill effective January 1, 2002 which was $760,000 for the nine months ended September 30, 2001 and 5) gain from debt settlements of $226,000 recorded for the nine months ended September 30, 2002.

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Financial Condition

The net cash used in operating activities decreased from $3,012,000 for the nine months ended September 30, 2001 to $338,000 for the nine months ended September 30, 2002 primarily due to an increase in income from operations in 2002 of $313,000 as compared to a loss from operations in 2001 of $1,337,000. The increase in receivables in 2002 is primarily attributable to increases in Winncom's receivables from $4.9 million at December 31, 2001 to $5.4 million at September 30, 2002. Winncom's receivables increased at September 30, 2002 compared to December 31, 2001 because Winncom's sales were $5.9 million in the 4th quarter of 2001 compared to sales of $6.9 million for the 3rd quarter ended September 30, 2002. There were only minimal increases in inventory, prepaids and accounts payable from December 31, 2001 to September 31, 2002.

The net cash used in investing activities of $97,000 in 2002 and $347,000 in 2001 is primarily the result of increases in patents and purchases of equipment. Most of the 2001 increase in plant and equipment is the result of the purchase of BATC assets in August 2001.

The net cash provided by financing activities of $354,000 in 2002 is primarily the result of increases in net borrowings under lines of credit of $319,000 and net proceeds from a private placement of $119,000, partially offset by the purchase of treasury stock in the amount of $75,000 in connection with the McConnell litigation settlement. For 2001 the net cash provided by financing activities of $2,678,000 is primarily the result of increases in net borrowings under lines of credit of $1,706,000 and net proceeds from a private placement of $978,000. Borrowings under the line of credit increased by $925,000 in August 2001 as a result of the purchase of certain BATC assets.

The Company's working capital at September 30, 2002 was $3.5 million compared to $5.6 million at December 31, 2001. The decrease is the result of the classification of the bank line of credit in the amount of $2.9 million from long-term debt to current liabilities as it is due April 2003. Excluding this reclassification, working capital would have improved to $6.4 million as compared to $5.6 million at December 31, 2001.

In conjunction with the acquisition of Winncom Technologies Corp. on May 24, 2000, the Company assumed a $1,500,000 revolving line of credit from a bank bearing an interest rate of prime plus 0.5% (5.5% at December 31, 2001 and at June 30, 2002). The line is collateralized by accounts receivable, inventory and otherwise unencumbered fixed assets of Winncom. The credit line provides that Winncom is prohibited from guaranteeing any obligations of, or paying or advancing any distribution or other amount to, ARC Wireless Solutions, Inc. or any of its subsidiaries. ARC is a general guarantor of this loan. On November

27, 2000 the line was increased to $3,000,000, of which $2,621,000 was outstanding at December 31, 2001, and $2,865,000 was outstanding at September 30, 2002. As of October 29, 2002 the $3 million line of credit and the $1 million line of credit discussed below were combined into a single $4 million line of credit with a due date of April 30, 2003.

In connection with the acquisition of the Ball Assets in August 2001, Winncom established a new second line of credit in the amount of $1 million bearing an interest rate of prime plus 0.5% (5.5% at December 31, 2001 and at June 30, 2002). This line is also collateralized by accounts receivable, inventory and otherwise unencumbered fixed assets of Winncom. ARC is a general corporate guarantor of this loan. As of December 31, 2001 and September 30, 2002, $925,000 and $1,000,000, respectively, were outstanding under this line of credit. The outstanding balance under this letter of credit was due and payable July 31, 2002. On October 29, 2002 the $3 million line of credit, discussed above, and the $1 million line of credit were combined into a single $4 million line of credit with a due date of April 30, 2003.

In conjunction with the acquisition of Starworks Technology Inc. on September 29, 2000, the Company assumed a $1.5 million revolving bank loan, which was secured by accounts receivable and restricted cash maintained in a non-collection reserve account. The Company ceased assigning Starworks' accounts receivable to the bank in February 2001. There is no balance outstanding under the revolving bank loan at September 30, 2002 or December 31, 2001.

The Company has recently been approved for a $500,000 lease line of credit. Under this agreement $229,000 of capital assets acquired from Ball in August 2001 will be subject to a sale lease-back in which the Company will receive proceeds of up to $159,000. The remaining open balance on the lease line will be used to finance capital expenditures budgeted for the remainder of 2002 although currently there are no material commitments for capital expenditures.

The Company closed the operations of Starworks in the Atlanta location on July 12, 2002. The expected closure costs were accrued as of December 31, 2001. With the closure of Starworks in Atlanta the Company expects to reduce monthly operating costs by approximately $16,000 to $20,000.

At September 30, 2002 the Company's backlog was approximately $1 million all of which is expected to be completed by December 31, 2002.

Management believes that current working capital, available borrowings on existing bank lines of credit, proceeds from the sale and leaseback and from available borrowings on the new lease line of credit, together with additional equity infusions that management believes will be available, will be sufficient to allow the Company to maintain its operations through December 31, 2002 and into the foreseeable future.

Forward Looking Statements

This report contains forward-looking statements. Although the Company believes that the expectations reflected in the forward looking statements and the assumptions upon which the forward looking statements are based are reasonable, it can give no assurance that such expectations and assumptions will prove to be correct. See the Company's Annual Report on Form 10-KSB for additional statements concerning important factors, such as demand for products, manufacturing costs and competition that could cause actual results to differ materially from the Company's expectations.

Item 3. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures

Based on an evaluation carried out under the supervision, and with the participation of ARC management, including the Chief Executive Officer and the Chief Financial Officer during the 90 day period prior to the filing of this report, the Company's Chief Executive Officer and Chief Financial Officer believe ARC's disclosure controls and procedures, as defined in Securities Exchange Act Rules 13a-14 and 15d-14, are to the best of their knowledge, effective.

(b) Changes in internal controls

Subsequent to the date of this evaluation, the Chief Executive Officer and Chief Financial Officer are not aware of any significant changes in the Company's internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses, or in other factors that could significantly affect these controls to ensure that information required to be disclosed by ARC, in reports that it files or submits under the Securities Act of 1934, is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and regulations.

PART II. OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds; Recent Sales of Unregistered Securities

In March 2002, the Company sold 754,545 shares of restricted common stock at $.165 per share to two accredited investors in a private placement transaction. These sales resulted in gross proceeds to the Company of $124,500. The issuance of these shares of common stock were made pursuant to exemptions from registration in accordance with Rules 505 and/or 506 and/or Sections 3(b) and/or 4(2) of the Securities Act. The Company intends to use the net proceeds from this offering for working capital purposes. Pursuant to the terms of the private placement the Company is obligated to file with the SEC, within 30 days after the filing with the SEC of the Company's Annual Report on Form 10-KSB for the year ended December 31, 2001, a registration statement covering resale of these shares. This registration statement was filed with the SEC on October 3, 2002.

Item 6. Exhibits And Reports On Form 8-K

(a) Exhibits.

None

(b) Reports on Form 8-K.

During the period ended September 30, 2002, the Company filed a Current Report on Form 8-K reporting Regulation FD disclosure pursuant to Item 9 on March 19, 2002 and August 12, 2002.

SIGNATURES

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: November 13, 2002 By: /S/ Randall P. Marx

Randall P. Marx
Chief Executive Officer

Date: November 13, 2002 By: /S/ Monty R. Lamirato

Monty R. Lamirato
Chief Financial Officer

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Randall P. Marx, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of ARC Wireless Solutions, Inc.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent

functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

November 13, 2002 /s/ Randall P. Marx

Randall P. Marx
Chief Executive Officer

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CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Monty R. Lamirato, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of ARC Wireless Solutions, Inc.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

November 13, 2002 /s/ Monty R. Lamirato

Monty R. Lamirato
Chief Financial Officer