ABBOTT LABORATORIES
Form 8-K
July 12, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

July 11, 2016

Date of Report (Date of earliest event reported)

ABBOTT LABORATORIES

(Exact name of registrant as specified in its charter)

Illinois	**1-2189**	**36-0698440**
(State or other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

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100 Abbott Park Road

Abbott Park, Illinois 60064-6400

(Address of principal executive offices)(Zip Code)

Registrant s telephone number, including area code: **(224) 667-6100**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

x Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01. **Other Events.**

On July 11, 2016, Abbott Laboratories, an Illinois corporation (Abbott), and St. Jude Medical Inc., a Minnesota corporation (St. Jude Medical), each received a request for additional information from the United States Federal Trade Commission (the FTC) relating to Abbott s potential acquisition of St. Jude Medical. The effect of these requests, which were issued under the Hart-Scott Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act), is to extend the waiting period imposed by the HSR Act until 30 days after Abbott and St. Jude Medical have substantially complied with the requests, unless the period is extended voluntarily by the parties or terminated sooner by the FTC.

Private Securities Litigation Reform Act of 1995

A Caution Concerning Forward-Looking Statements

Some statements in this Form 8-K may be forward-looking statements for purposes of the Private Securities Litigation Reform Act of 1995. Abbott cautions that these forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those indicated in the forward-looking statements. Among other risks, there can be no guarantee that the acquisition of St. Jude Medical will be completed or when it will be completed, or that the expected benefits of the acquisition will be realized. Economic, competitive, governmental, technological and other factors that may affect Abbott s operations are discussed in Item 1A, Risk Factors, to its Annual Report on Securities and Exchange Commission Form 10-K for the year ended Dec. 31, 2015, and are incorporated by reference. Abbott undertakes no obligation to release publicly any revisions to forward-looking statements as a result of subsequent events or developments, except as required by law.

Important Additional Information

In connection with the proposed transaction, Abbott has filed a registration statement on Form S-4, which will include a document that serves as a prospectus of Abbott and a proxy statement of St. Jude Medical (the proxy statement/prospectus), and each party will file other documents regarding the proposed transaction with the U.S. Securities and Exchange Commission (the SEC). The registration statement has not yet become effective. Investors and security holders of St. Jude Medical are urged to carefully read the entire registration statement and proxy statement/prospectus and other relevant documents filed with the SEC when they become available, because they will contain important information. Following the registration statement having been declared effective by the SEC, a definitive proxy statement/prospectus will be sent to St. Jude Medical s shareholders. Investors and security holders will be able to obtain the registration statement and the proxy statement/prospectus free of charge from the SEC s website or from Abbott or St. Jude Medical as described in the paragraphs below.

The documents filed by Abbott with the SEC may be obtained free of charge at Abbott s website at www.abbott.com or at the SEC s website at www.sec.gov. These documents may also be obtained free of charge from Abbott by requesting them by mail at Abbott Laboratories, 100 Abbott Park Road, Abbott Park, IL 60064-6400, Attention: Investor Relations, or by telephone at (224) 667-8945.

The documents filed by St. Jude Medical with the SEC may be obtained free of charge at St. Jude Medical s website at www.sjm.com or at the SEC s website at www.sec.gov. These documents may also be obtained free of charge from St. Jude Medical by requesting them by mail at St. Jude Medical, One St. Jude Medical Drive, St. Paul, MN 55117, Attention: Investor Relations, or by telephone at (651) 756-4347.

Participants in the Solicitation

St. Jude Medical, Abbott and certain of their directors, executive officers and employees may be deemed participants in the solicitation of proxies from St. Jude Medical shareholders in connection with the proposed transaction. Information regarding the persons who may, under the rules of the SEC, be deemed participants in the solicitation of the shareholders of St. Jude Medical in connection with the proposed transaction, including a description of their direct or indirect interests, by security holdings or otherwise, set forth in the proxy statement/prospectus when it is filed with the SEC. Information about the directors and executive officers of

Abbott and their ownership of Abbott common shares is set forth in the definitive proxy statement for Abbott s 2016 annual meeting of shareholders, as previously filed with the SEC on March 18, 2016. Information about the directors and executive officers of St. Jude Medical and their ownership of St. Jude Medical common shares is set forth in the definitive proxy statement for St. Jude Medical s 2016 annual meeting of shareholders, as previously filed with the SEC on March 22, 2016. Free copies of these documents may be obtained as described in the paragraphs above.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ABBOTT LABORATORIES

Date: July 12, 2016

By: /s/ Brian B. Yoor
Brian B. Yoor
Senior Vice President, Finance and
Chief Financial Officer

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3,090,000 $ 2,000 $20,696,000 - - $(5,278,000) ==
See accompanying notes to consolidated financial statements. F-4 ARC Wireless Solutions, Inc. Consolidated Statements of Cash Flows For the years ended December 31, 2007 2006 2005 -- Operating activities Income (loss) from continuing operations $ (703,000) $ (1,606,000) $ 573,000 Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities: Depreciation and amortization 181,000 162,000 187,000 Provision for doubtful receivables 395,000 7,000 -- Non-cash expense for issuance of stock and options 36,000 19,000 56,000 Deferred taxes -- -- (490,000) Loss on sale of discontinued operations -- 187,000 -- Changes in operating assets and liabilities: Accounts receivable, trade (948,000) 280,000 107,000 Inventory (391,000) 131,000 (35,000) Prepaids and other current assets 308,000 (345,000) (19,000) Other assets (3,000) 7,000 -- Accounts payable and accrued expenses (86,000) 348,000 (308,000) Other (1,000) 2,000 -- -- Net cash provided by (used in) continuing operations (1,212,000) (808,000) 71,000 Net cash provided by (used in) discontinued operations -- 1,394,000 (657,000) -- Net cash provided by (used in) operating activities (1,212,000) 586,000 (586,000) -- Investing activities Net proceeds from sale of discontinued operations -- 16,397,000 -- Patent acquisition costs (23,000) (10,000) (6,000) Purchase of plant and equipment (99,000) (80,000) (74,000) -- Net cash provided by (used) in investing activities, continuing operations (122,000) 16,307,000 (80,000) -- Purchase of plant and equipment, discontinued operations -- (58,000) (25,000) -- Net cash used in investing activities, discontinued operations -- (58,000) (25,000) -- Net cash provided by (used in) investing activities -- 16,249,000 (105,000) Financing activities Net advances from line of credit 4,978,000 276,000 228,000 Net repayment of line of credit and capital lease obligations (4,423,000) (73,000) (64,000) -- Net cash provided by financing activities, continuing operations 555,000 203,000 164,000 -- Net advances (repayment) of line of credit and bank debt, discontinued operations -- (1,382,000) 517,000 -- Net cash provided by (used in) financing activities, discontinued operations -- (1,382,000) 517,000 -- Net cash provided by (used in) financing activities 555,000 (1,179,000) 681,000 -- Net change in cash (779,000) 15,656,000 (10,000) Cash and cash equivalents, beginning of year 15,720,000 64,000 74,000 -- Cash and cash equivalents, end of year $ 14,941,000 $ 15,720,000 $ 64,000 == Supplemental cash flow information: Cash

paid for interest, continuing operations $ 24,000 $ 124,000 $ 123,000 Cash paid for interest, discontinued operations -- $ 109,000 $ 161,000 Cash paid for taxes, discontinued operations -- $ 220,000 $ 44,000 Equipment acquired under capital lease, continuing operations $ 135,000 $ 22,000 $ 17,000 Issuance of common stock to 401(K) Plan -- -- $ 57,000 See accompanying notes to consolidated financial statements. F-5 1. Organization and Summary of Significant Accounting Policies Organization The Company was organized under the laws of the State of Utah on September 30, 1987 for the purpose of acquiring one or more businesses, under the name of Westflag Corporation, which was formerly Westcliff Corporation. In January 1989, the Company completed its initial public offering. In 1989, the Company merged with Antennas America, Inc., a Colorado corporation that had been formed in September 1988. Pursuant to the merger, all the issued and outstanding stock of Antennas America, Inc. was converted into 839,040 shares, and the Company name was changed to Antennas America, Inc. At the annual shareholders meeting held on October 11, 2000, the shareholders voted to change the Company's name to ARC Wireless Solutions, Inc. from Antennas America, Inc. The Wireless Communications Solutions Division designs, develops, markets and sells a diversified line of antennas and related wireless communication systems, including base station panel antennas, conformal and phased array antennas, distributed primarily through third party OEMs and distributors located in the United States. On May 24, 2000, the Company purchased, through its subsidiary, Winncom Technologies, Corp. ("Winncom"), the outstanding shares of Winncom Technologies, Inc. Winncom specializes in marketing, distribution and service, as well as selected design, manufacturing and installation, of wireless component and network solutions in support of both voice and data applications, primarily through third party distributors located in the United States. Effective October 31, 2006, Winncom was sold for $17,000,000 and ceased to be a wholly owned subsidiary. On September 29, 2000, the Company purchased, through its subsidiary, Starworks Wireless Inc. ("Starworks"), the outstanding shares of Starworks Technology, Inc. (a/k/a The Kit Company). Starworks specializes in the design, manufacturing, marketing, distribution and service of direct-to-home dish satellite installation kits in the United States, primarily through OEMs and third-party distributors, retailers and the Internet. In May 2006, the Company formed a new wholly-owned subsidiary, ARC Wireless Hong Kong Limited to pursue Asian and other international business, and to further strengthen the Company's procurement and manufacturing capabilities. Principles of Consolidation The accompanying consolidated financial statements include the accounts of ARC Wireless Solutions, Inc. ("ARC"), and its wholly-owned subsidiary corporations, Winncom Technologies Corp. ("Winncom"), through October 31, 2006, the date of its sale, Starworks Wireless Inc. ("Kit") and ARC Wireless Hong Kong Limited, ("ARCHK"), since their respective acquisition dates. All material intercompany accounts, transactions, and profits have been eliminated in consolidation. Basis of Presentation The Company has experienced recurring losses, and has accumulated a deficit of approximately $5.3 million since inception in 1989. In 2005, 2004 and 2002 the Company generated net income and in 2007, 2006 and 2003 the Company generated losses. There can be no assurance that the Company will achieve the desired result of net income and positive cash flow from operations in future years. Management believes that current working capital and available borrowings on existing bank line of credit will be sufficient to allow the Company to maintain its operations through December 31, 2008. F-6 1. Organization and Summary of Significant Accounting Policies, continued Use of Estimates The preparation of the Company's consolidated financial statements in accordance with generally accepted accounting principles of the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Cash and Cash Equivalents The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. From time to time the Company has cash balances in excess of federally insured amounts. The Company maintains its cash balances with several financial institutions. As of December 31, 2007, the balance exceeded the Federal Deposit Insurance Corporation limitation for coverage of $100,000 by approximately $14,700,000. The Company reduces its exposure to credit risk by maintaining such balances with financial institutions that have high credit ratings. Fair Value of Financial Instruments The Company's short-term financial instruments consist of cash, money market accounts, accounts receivable, and accounts payable, accrued expenses and bank debt. The carrying amounts of these financial instruments approximate fair value because of their short-term maturities. Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash and accounts receivable. The Company does not hold or issue financial instruments for trading purposes nor does it hold or issue interest rate or leveraged derivative financial instruments. Accounts Receivable Trade receivables consist of uncollateralized customer obligations due under normal trade terms requiring payment usually within 30 days of the invoice date. Management reviews trades receivables periodically and reduces the carrying amount by a valuation allowance that reflects management's best estimate of the amount that may not be collectible. The allowance for doubtful accounts, continuing operations, was $453,000 and $31,000 at December 31, 2007 and 2006, respectively. Bad debt expense, continuing operations, was $395,000, $0 and $13,000 for the years ended December 31, 2007, 2006 and 2005, respectively. 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, which includes allocated overhead, consists of the following at December 31: 2007 2006 -------------------------------- Raw materials $ 963,000 $ 900,000 Work in progress 105,000 128,000 Finished goods 815,000 454,000 -------------------------------- 1,883,000 1,482,000 Inventory reserve (704,000) (694,000) -------------------------------- Net inventory $ 1,179,000 $ 788,000 ================================ F-7 1. Organization and Summary of Significant Accounting Policies, continued Property and Equipment Property and equipment are stated at acquired cost. The Company uses the straight-line method over estimated useful lives of three to seven years to compute depreciation for financial reporting purposes and accelerated methods for income tax purposes. Leasehold improvements and leased equipment are amortized over the lesser of the estimated useful lives or over the term of the leases. Upon sale or retirement, the cost and related accumulated depreciation of disposed assets are eliminated from the respective accounts and the resulting gain or loss is included in the statements of operations. Property and equipment consist of the following at December 31: 2007 2006 ----------------------------- Machinery and equipment $ 1,368,000 $ 1,237,000 Computer equipment and software 514,000 404,000 Furniture and fixtures 164,000 180,000 Leasehold improvements 32,000 89,000 ----------------------------- 2,078,000 1,910,000 Accumulated depreciation (1,713,000) (1,613,000) ----------------------------- $ 365,000 $ 297,000 ============================= Depreciation expense, which includes amortization of fixed assets acquired through capital leases, amounted to $166,000, $147,000 and $171,000 during the years ended December 31, 2007, 2006 and 2005, respectively. Patent Costs Patent costs are stated at cost and amortized over ten years using the straight-line method. Patent amortization expense amounted to $15,000, $15,000 and $16,000 for the years ended December 31, 2007, 2006 and 2005, respectively. Long-lived Assets The carrying value of long-lived assets are reviewed annually; if at any time the facts or circumstances at any of the Company's individual subsidiaries indicate impairment of long-lived asset values, as a result of a continual decline in performance or as a result of fundamental changes in a subsidiary's market, a determination is made as to whether the carrying value of the property's long-lived assets exceeds estimated realizable value. F-8 1. Organization and Summary of Significant Accounting Policies, continued Intangible Assets Intangible assets consist principally of purchased intangible assets and the excess acquisition cost over the fair value of tangible and identified intangible net assets of businesses acquired (goodwill). Purchased intangible assets include developed technology, trademarks and trade names, assembled workforces and distribution network. The Company continually evaluates whether later events and circumstances have occurred that indicate the remaining estimated useful life of goodwill may warrant revision or that the remaining balance of goodwill may not be recoverable. When factors indicate that goodwill should be evaluated for possible impairment, the Company uses an estimate of future cash flows expected to result from the use of the assets in comparison with the assets carrying amount in deciding whether the goodwill is recoverable. Intangible assets, except goodwill, are being amortized using the straight-line method over estimated useful lives ranging from 5 to 15 years. 2007 2006 --------------------------- Patents $ 275,000 $ 252,000 --------------------------- 275,000 252,000 Accumulated amortization (169,000) (154,000) --------------------------- Intangible assets, net $ 106,000 $ 98,000 =========================== The Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" effective January 1, 2002. Pursuant to SFAS No. 142, goodwill and other indefinite lived intangible assets are no longer amortized, but must be tested for impairment at least annually. The Company has performed both the transitional impairment test and annual impairment test required by 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. Goodwill was eliminated upon the sale of Winncom effective October 31, 2006. Revenue Recognition Revenue is recorded when goods are shipped. The Company has established reserves for anticipated sales returns based on historical return percentages as well as specific identification and reserve of potential problem accounts. The Company has several major commercial customers who incorporate the Company's products into other manufactured goods, and returns from these customers have not been significant. Additionally, returns related to retail sales have been immaterial and within management's expectations. F-9 1. Organization and Summary of Significant Accounting Policies, continued Revenue Recognition, continued Starting in 2005, the Company commenced a long term construction contract and the Company follows the percentage-of-completion method of accounting for 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 costs incurred to date with management's current estimate of total costs to be incurred at contract completion. Revenue is recognized based on applying the percentage against the total contract amount. 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. Total contract revenue recognized, included in discontinued operations, for the years ended December 31, 2006 and 2005 was $20,555,000 and $2,632,000, respectively (see Note 2). The percentage-of-completion method of accounting for contract revenue applied only to discontinued operations, as such the Company no longer uses this method of contract revenue accounting. Shipping and Handling Costs The Company classifies shipping and handling costs as a component of cost of sales. Research and Development Research and development costs are charged to expense as incurred. Such expenses were $512,000, $363,000 and $315,000, respectively, for the years ended December 31, 2007, 2006 and 2005. Advertising Costs Advertising costs are charged to operations when the advertising is first shown. Advertising costs charged to operations were $13,000, $20,000 and $40,000 in 2007, 2006 and 2005, respectively. Product Warranty The Company's vendors generally warrant the products distributed by the Company and allow the Company to return defective products, including those that have been returned to the Company by its customers. The Company does not independently warrant the products it distributes. The Company does warranty products it manufactures and records a provision for estimated warranty costs at the time of the sale and periodically adjusts the provision to reflect actual experience. Warranty expense was not material to the Company's consolidated statements of operations for the years ended December 31, 2007, 2006 and 2005. F-10 1. Organization and Summary of Significant Accounting Policies, continued Income Taxes The Company accounts for income taxes pursuant to Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109) which utilizes the asset and liability method of computing deferred income taxes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. The current and deferred tax provision is allocated among the members of the consolidated group on the separate income tax return basis. Effective January 1, 2007, we adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes -- An Interpretation of FASB Statement No. 109, or FIN 48. FIN 48 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the financial statements in accordance with SFAS No. 109. Tax positions must meet a "more-likely-than-not" recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. Upon the adoption of FIN 48, we had no unrecognized tax positions. During the year ended December 31, 2007, we recognized no adjustments for uncertain tax positions. We recognize interest and penalties related to uncertain tax positions in income tax expense. No interest and penalties related to uncertain tax positions were accrued at December 31, 2007. The tax years 2003 through 2006 remain open to examination by the major taxing jurisdictions in which we operate. We expect no material changes to unrecognized tax positions within the next twelve months. Reclassifications Certain balances in the prior year consolidated financial statements have been reclassified in order to conform to the current year presentation. The reclassifications had no effect on financial condition, gross profit, income (loss) from operations or net income (loss). Stock Based Compensation On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R) ("SFAS 123(R)") related to accounting for share-based payments and, accordingly, the Company is now recording compensation expense for share-based awards based upon an assessment of the grant date fair value for stock options and restricted stock awards. Prior to 2006, share based compensation was accounted for in accordance with Accounting Principles Board Opinion No. 25. We are using the modified prospective method of adoption, which allows us to apply SFAS 123(R) on a going-forward basis rather than restating prior periods. Stock compensation expense for stock options is recognized on a straight-line basis over the vesting period of the award. The Company accounts for stock options as equity awards. F-11 1. Organization and Summary of Significant Accounting Policies, continued Stock Based Compensation, continued The following table summarizes share-based compensation expense recorded in general and administrative expenses during each period presented: Year Ended Year Ended December 31, December 31, 2007 2006 -------------------------------- Stock options $21,000 $11,000 --------------------------- Total share-based compensation expense $21,000 $11,000 ============================ 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 income and per share amounts for the year ended December 31, 2005 would have been adjusted to the pro forma amounts indicated below: 2005 ------------- Net income as reported $1,292,000 Add: stock based compensation included in reported net income Deduct: Stock-based compensation cost under SFAS 123 (29,000) ------------- Pro forma net income $1,263,000 ============== Pro forma shares used in the calculation of pro forma net income per common share - basic and diluted 3,084,000 Reported net income percommon share - basic and diluted $.42 Pro forma net income per common share - basic and diluted $.41 Pro forma information regarding net loss is required by SFAS 123, which also requires that the information be determined as if the Company had accounted for grants subsequent to December 31, 1994 under a method specified by SFAS 123. Options granted were estimated using the Black-Scholes valuation model. F-12 1. Organization and Summary of Significant Accounting Policies, continued Stock Based Compensation, continued Stock option activity was as follows: Number of Weighted Average Shares Exercise Price ($) --------------------------------------- Balance at January 1, 2006 52,000 $7.50 Granted 5,000 $6.50 Exercised - Forfeited or expired (5,000) $7.50 -------------------------------------- Balance at December 31, 2006 52,000 $7.30 Granted 47,500 $5.38 Exercised - Forfeited or expired (45,000) $7.40 --------------------------------------- Balance at December 31, 2007 54,500 $5.56 ======================================= The following table presents information regarding options outstanding as of December 31, 2007: Weighted average contractual remaining term - options outstanding 7.34 years Aggregate intrinsic value - options outstanding - Options exercisable 21,000 Weighted average exercise price - options exercisable $5.82 Aggregate intrinsic value - options exercisable - Weighted average contractual remaining term - options exercisable 4.13 years No options were exercised during the years ended December 31, 2007 and 2006. The following weighted average assumptions were used: Years Ended December 31, --- 2007 2006 2005 --- Volatility .518 - .782 .751 .80 - 1.02 Expected life of options (in years) 2-4 2 2 Dividend Yield 0.00% 0.00% 0.00% Risk free interest rate 4.60-5.25% 6.00% 3.75% Per share value of options granted $.44 $3.00 $3.75 As of December 31, 2007, future compensation costs related to nonvested stock options was $129,000. Management anticipates that this cost will be recognized over a weighted average period of 4 years. F-13 1. Organization and Summary of Significant Accounting Policies, continued Net Income (Loss) Per Common 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 years ended December 31, 2007 and 2006, the Company incurred a net loss and stock options totaling 54,250 and 52,000, respectively, 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 2007 and 2006. For the year ended December 31, 2005 out of the money options totaling 50,000 were not included in the calculation of diluted earnings per share because their effect is anti-dilutive. The following table represents a reconciliation of the shares used to calculate basic and diluted earnings per share for the respective periods indicated: Years Ended December 31, --- 2007 2006 2005 Numerator: Net Income (Loss) $ (703,000) $ (742,000) $1,292,000 == Denominator: Denominator for basic earnings per share - weighted average shares 3,090,000 3,086,000 3,083,000 Effect of dilutive securities

Employee stock options - - 1,000 Common stock warrants - - - -- Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversion 3,090,000 3,086,000 3,084,000 == Basic earnings per share $(.23) $(.24) $.42 == Diluted earnings per share $(.23) $(.24) $.42 == Recent Accounting Pronouncements In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which enhances existing guidance for measuring assets and liabilities using fair value. SFAS 157 provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. SFAS 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted market prices in active markets. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. SFAS 157 does not require any new fair value measurements for existing assets and liabilities on the Company's balance sheet as of the date of adoption. As such, the Company does not expect any impact to its financial statements as of the January 1, 2008 adoption date. F-14 1. Organization and Summary of Significant Accounting Policies, continued Recent Accounting Pronouncements, continued In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans--an amendment of FASB Statements No. 87, 88, 106, and 132(R) ("SFAS 158"), which requires the recognition of the funded status of benefit plans in the balance sheet. SFAS 158 also requires certain gains and losses that are deferred under current pension accounting rules to be recognized in accumulated other comprehensive income, net of tax effects. These deferred costs (or income) will continue to be recognized as a component of net periodic pension cost, consistent with current recognition rules. For entities with no publicly traded equity securities, the effective date for the recognition of the funded status is for fiscal years ending after June 15, 2007. In addition, the ability to measure the plans' benefit obligations, assets and net period cost at a date prior to the fiscal year-end date is eliminated for fiscal years ending after December 15, 2008. The adoption of the recognition element of SFAS 158 had no effect on the Company's financial statements. The adoption of the measurement date element of SFAS 158 is not expected to have a material impact on the Company's financial statements. In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities--including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 expands the use of fair value accounting but does not affect existing standards which require assets and liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees, issued debt and other eligible financial instruments. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company has elected not to adopt SFAS 159. In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"), which replaces SFAS 141. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired in connection with a business combination. The Statement also establishes disclosure requirements that will enable users to evaluate the nature and financial effect of the business combination. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of an entity's first fiscal year that begins after December 15, 2008. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS 141R on the Company's financial statements. In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements--an amendment of ARB No. 51" ("SFAS 160"). SFAS 160 requires that accounting and reporting for minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This Statement is effective as of the beginning of an entity's first fiscal year beginning after December 15, 2008. The Company has not yet determined the impact, if any, that SFAS 160 will have on its financial statements. On March 19, 2008, The Financial Accounting Standards Board (FASB) issued FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities. The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company has not yet determined the impact, if any, that SFAS 161 will have on its financial statements. F-15 Note 2. Discontinued Operations On July 28, 2006, ARC 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 was held in escrow per the terms of the Purchase Agreement . On October 31, 2006, the shareholders of the Company approved the sale of Winncom and the remaining conditions under the Purchase Agreement were satisfied. The Company received the $17,000,000 from the escrow agent on November 1, 2006. The net loss on the sale of Winncom is computed as follows: Gross proceeds from the sale of Winncom $ 17,000,000 Net assets (17,187,000) ----------- Loss on sale of Winncom $ (187,000) =========== This business segment, Distribution, has been accounted for as a discontinued operation, 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. Information related to the discontinued operations for the years ended December 31, 2006 and 2005 are as follows: 2006 2005 ---------------------------- Sales, net $ 28,773,000 $ 30,288,000 Contract revenue 20,555,000 2,632,000 ---------------------------- Total revenue 49,328,000 32,920,000 ---------------------------- Cost of sales 25,077,000 25,877,000 Cost of contract revenue 19,236,000 2,296,000 ---------------------------- Total cost of goods sold 44,313,000 28,173,000 ---------------------------- Gross profit 5,015,000 4,747,000 Operating expenses: Selling, general and administrative expenses 3,996,000 3,874,000 ---------------------------- Income from operations 1,019,000 873,000 Other income (expense): Interest expense, net (110,000) (161,000) Other income 159,000 190,000 ---------------------------- Total other income (expense) 49,000 29,000 ---------------------------- Income before income taxes 1,068,000 902,000 Provision for income taxes (204,000) (183,000) ---------------------------- Net Income $ 864,000 $ 719,000 ============================ F-16 Note 2. Discontinued Operations, continued 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% (8.75% at September 30, 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% (9% at September 30, 2006). The term loan became due on October 26, 2006 and was paid in full. Substantially all of the assets of Winncom were collateral on the line of credit and the term loan. The Company follows the percentage-of-completion method of accounting for long term contract revenue. Contracts are considered complete upon completion of all essential contract work, including support for integrated testing and customer acceptance. Under the percentage-of-completion method, income is recognized on contracts as work progresses based on the relationship between total contract revenues and total estimated contract costs. The percentage of work completed is determined by comparing the accumulated labor costs incurred to date with management's current estimate of total labor costs to be incurred at contract completion. Revenue is recognized based on applying the percentage against the total contract amount. The uninstalled portion of equipment was excluded from the calculation of accumulated costs in measuring contract progress and recognizable contract revenue. Contract costs include all direct material and equipment, subcontractor costs, and labor costs and those indirect costs related to contract performance. Revisions in profit estimates during the period of a contract are reflected in the accounting period in which the revised estimates are made on the basis of the stage of completion at the time. If estimated total costs on a contract indicate a loss, the entire amount of the estimated loss is provided for currently. As noted above in Note 2, total contract revenue recognized for the ten months ended October 31, 2006 and the year ended December 31, 2005 was $20,555,000 and $2,632,000, respectively. 3. Revolving Bank Loan Agreements and Notes Payable 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. F-17 3. Revolving Bank Loan Agreements and Notes Payable, continued On May 10, 2005, the Company entered into a new $1.5 million revolving line-of-credit agreement (the "Credit Facility") with Citywide Banks, which has been renewed annually. The new Credit Facility has a maturity of one year, with interest at 1.5% over prime (9.0% at December 31, 2007), contains covenants to maintain certain financial statement ratios, and is collateralized by essentially all of the assets of the Company and its wholly owned subsidiary, Starworks. The borrowing base is calculated on a percentage of trade accounts receivable and inventory for the Company and Starworks combined. As of December 31, 2007, the Company was in compliance with these covenants. The weighted average interest rate for 2007 and 2006 was 9.5%. Revolving bank line of credit at December 31, 2007 and 2006 consist of: 2007 2006 --------------------------- Line of credit, current $ 1,436,000 $ 830,000 =========================== 4. Stockholders' Equity On February 9, 2007, the Company announced a one-for-fifty reverse stock split of its issued and outstanding common stock to be effective as of February 12, 2007 (the "Effective Date"). Pursuant to the reverse stock split, each fifty shares of the Company's issued and outstanding common stock were reclassified and combined into one share of the Company's common stock as of the Effective Date. The number of shares of the Company's common stock authorized remained at 250 million shares, without any change in par value per common share, and the number of shares of the Company's preferred stock authorized remained at 2 million. As of the Effective Date, the exercise or conversion price, as well as the number of shares issuable under each of the Company's outstanding stock option agreements, were proportionately adjusted to reflect the reverse stock split. In addition, the number of shares authorized for issuance under the Company's equity compensation plans were proportionately reduced as of the Effective Date to reflect the reverse stock split. Stockholders' equity, common stock, and stock option activity for all periods presented have been restated to give retroactive recognition to the reverse stock split. In addition, all references in the accompanying consolidated financial statements, to the weighted average shares, per share amounts, and market prices of the Company's common stock have been restated to give retroactive recognition to the reverse stock split. The 2007 Stock Incentive Plan ("the 2007 Plan") was approved by the Board of Directors on August 2, 2007 and was also approved by the shareholders on September 17, 2007. The 2007 Plan provides that no more than 300,000 shares of our common stock may be issued for awards. If there is any change in the Company's common stock by reason of any stock exchange, merger, consolidation, reorganization, recapitalization, stock dividend, reclassification, split-up, combination of shares or otherwise, then the Board, or any Option Committee, shall make proportionate adjustments to the maximum number and kind of securities (i) available for issuance under the 2007 Plan; (ii) available for issuance as incentive stock options or non-qualified stock options; (iii) that may be subject to awards received by any participant; (iv) that may be subject to different types of awards; (v) that are subject to any outstanding award; and (vi) the price of each security. F-18 4. Stockholders' Equity, continued The 2007 Plan provides that shares covered by an award will not count against the shares available for issuance under the 2007 Plan until they are actually issued and delivered to a participant. If an award granted under the 2007 Plan lapses, expires, terminates or is forfeited, surrendered or canceled without having been fully exercised or without the issuance of all the shares subject to the award, the shares covered by such award will again be available for use under the 2007 Plan. In 2007, options totaling 40,000 were granted from the 2007 Plan to an officer at an exercise price of $5.40. No options were granted to directors in 2007 from the 2007 Plan. In November 1997, the Board of Directors approved our 1997 Stock Option and Compensation Plan (the "Plan"). The 1997 Plan expired November 2007. Pursuant to the Plan, we may grant options to purchase an aggregate of 100,000 shares of our common stock to key employees, directors, and other persons who have or are contributing to our success. In November 2004, the shareholders approved to amend the Plan to increase the aggregate number of option to be issued under the Plan from 100,000 to 200,000. The options granted pursuant to the Plan may be incentive options qualifying for beneficial tax treatment for the recipient or they may be non-qualified options. The Plan is administered by an option committee that determines the terms of the options subject to the requirements of the Plan, except that the option committee shall not administer the Plan with respect to automatic grants of options to our directors who are not our employees. The option committee may be the entire Board or a committee of the Board. On May 24, 2000, the Board of Directors voted to (1) decrease the amount of options automatically granted to Outside Directors from 5,000 to 500 options, and (2) decrease the amount of exercisable options from 1,000 to 100 per meeting. The term of the outside Director option granted in the future was lowered from five years to two years. The other terms of the Outside Director options did not change. On July 5, 2002, the Board of Directors voted to (1) increase the amount of options automatically granted to Outside Directors from 500 to 2,500 options, and (2) increase the amount of exercisable options from 100 to 500 per meeting. The other terms of the Outside Director options did not change. The Company granted a total of 7,500 options to Outside Directors under the 1997 Plan during 2007 at exercise prices ranging from $4.80 to $5.47 per share. The Company granted a total of 5,000 options to Outside Directors under the 1997 Plan during 2006 at an exercise price of $6.50 per share. The Company granted a total of 5,000 options to Outside Directors under the Plan during 2005 at exercise prices ranging from $5.50 to $7.50 per share. F-19 4. Stockholders' Equity, continued The following table summarizes the option activity for 2007, 2006 and 2005: Number of Weighted Average Shares Exercise Price ($) == 2005 Activity: Outstanding at beginning of year 48,500 $8.00 Granted 7,000 $6.50 Exercised - Forfeited or expired (3,500) $7.00 ------------------------------------- Outstanding at end of year 52,000 $7.50 == Exercisable at end of year 50,500 $7.50 == 2006 Activity: Outstanding at beginning of year 52,000 $7.50 Granted 5,000 $6.50 Exercised - Forfeited or expired (5,000) $8.00 ------------------------------------- Outstanding at end of year 52,000 $7.30 == Exercisable at end of year 49,500 $7.35 == 2007 Activity: Outstanding at beginning of year 52,000 $7.30 Granted 47,500 $5.38 Exercised - Forfeited or expired (45,000) $7.40 ------------------------------------- Outstanding at end of year 54,500 $5.56 == Exercisable at end of year 21,000 $5.82 == At December 31, 2007, there are 21,000 options exercisable from $4.80 to $7.50. These options expire between 2008 and 2017. The weighted average grant date fair value of the options granted is $3.09. All option exercise prices were granted at market. The weighted average remaining contractual life of options outstanding at the end of 2007, 2006 and 2005 were 7.34 years, .43 years and 1.23 years, respectively. F-20 5. Income Taxes The Company records the income tax effect of transactions in the same year that the transactions enter into the determination of income, regardless of when the transactions are recognized for tax purposes. Income tax credits are used to reduce the provision for income taxes in the year in which such credits are allowed for tax purposes. Deferred taxes are provided to reflect the income tax effects of amounts included for financial purposes in different periods than for tax purposes, principally valuation allowances for inventory and trade receivables for financial reporting purposes and accelerated depreciation for income tax purposes. Income tax expense (benefit) for the years ended December 31, 2007, 2006 and 2005 is as follows: 2007 2006 2005 --- Current $ (6,000) $(93,000) $ 198,000 Deferred - 30,000 (490,000) --- Total benefit $ (6,000) $(63,000) $(292,000) === Total benefit, continuing operations $ (6,000) $(267,000) $(475,000) Total expense, discontinued operations - 204,000 183,000 --- Total benefit expense $ (6,000) $(63,000) $(292,000) === As a result of net losses for the years ended December 31, 2007 and 2006, management believes a valuation allowance on its deferred tax assets is necessary. The components of the deferred taxes asset as of December 31 are as follows: 2007 2006 ------------------------------------- Deferred tax assets (current): Net operating loss carry-forwards $ 271,000 $ 191,000 Inventory reserve 268,000 258,000 Deferred revenue (17,000) - Bad debt reserves 172,000 11,000 ------------------------------------- 694,000 460,000 ------------------------------------- Deferred tax liabilities (long-term): Property and equipment 2,000 (3,000) Intangibles 21,000 (12,000) ------------------------------------- 23,000 (15,000) ------------------------------------- Deferred tax assets 717,000 445,000 Valuation allowance (717,000) (445,000) ------------------------------------- Net deferred tax assets $ - $ - == As of December 31, 2007, we had total net operating loss carry-forwards of $714,000 million, which start expiring in 2023. F-21 5. Income Taxes, continued A reconciliation of federal income taxes computed by multiplying pretax net loss by the statutory rate of 35% to the provision for income taxes is as follows at December 31: 2007 2006 2005 --- Tax (benefit) expense computed at statutory rate $(248,000) $(190,000) $ 350,000 State income tax (21,000) 42,000 27,000 Valuation allowance 272,000 445,000 (680,000) Effect of permanent differences 16,000 (5,000) (7,000) Other (primarily net operating losses) (25,000) (355,000) 18,000 --- Provision for income taxes benefit $ (6,000) $ (63,000) $(292,000) === As of December 31, 2005, the Company determined that a valuation allowance was not necessary as management believes that it is more likely than not that the net deferred tax assets will be realized. As of December 31, 2007 and 2006, an evaluation of the allowance determined that it was more likely than not that the net operating loss asset may not be realized, and therefore a valuation allowance for the full amount was recorded. The valuation allowance increased by $272,000 in 2007, $445,000 in 2006 and decreased by $680,000 in 2005. 6. Sales to Major Customers The Company had sales from continuing operations to two customers in 2007 that represented approximately 17% and 15%, respectively, of our annual sales. The Company had sales from continuing operations to two customers in 2006 that represented approximately 33% and 16%, respectively, of our annual sales. The Company had sales from continuing operations to one customer in 2005 that represented approximately 52% of our annual sales. The concentration of the Company's business with a relatively small number of customers may expose us to a material adverse effect if one or more of these large customers were to experience financial difficulty or were to cease being customer for non-financial related issues. At December 31, 2007 three customers represented approximately 31%, 11% and 11%, respectively, of our trade accounts receivable. At December 31, 2006, three customers represented approximately 19%, 16% and 11%, respectively, of our trade accounts receivable. 7. Significant Suppliers With regard to continuing operations during 2007 the Company purchased a majority of its product from two vendors, during 2006, the Company purchased approximately 39% of its product from two vendors, and in 2005, the Company purchased approximately 22% of its product from two vendors. The loss of any of these vendors could have a material adverse impact on the operations of the Company. 8. Leasing Activities The Company leases its facilities under non-cancellable operating leases through 2010. Minimum future rentals payable under the leases are as follows: 2008 259,000 2009 271,000 2010 163,000 ---------- $ 693,000 ========== F-22 8. Leasing Activities, continued Rent expense from continuing operations was $289,000, $245,000 and $247,000 for the years ended December 31, 2007, 2006 and 2005, respectively. Certain of the Company's office space leases are structured to include scheduled and specified rent increases over the lease term. The Company has recognized the effect of these rent escalations and periods of free rent on a straight-line basis over the lease terms. Property and equipment included the following amounts for leases that have been capitalized at December 31, 2007 and December 31, 2006. 2007 2006 -------------------------- Machinery and Equipment $ 240,000 $ 215,000 Computers and Software 133,000 52,000 Furniture and Fixtures 13,000 13,000 -------------------------- 386,000 280,000 Less accumulated amortization (234,000) (139,000) -------------------------- $ 152,000 $ 141,000 ========================== The Company recorded amortization expense of $96,000, $50,000 and $39,000, respectively, on assets recorded under capitalized leases for 2007, 2006 and 2005. Future minimum lease payments under capital leases are as follows at December 31, 2007: 2008 $ 86,000 2009 51,000 2010 21,000 --------- Total minimum lease payments 158,000 Amount representing interest (19,000) --------- Present value of lease payments $ 139,000 --------- Less current portion (56,000) --------- Non-current portion $ 83,000 ========= 9. Defined Contribution Plan In November 1999, the Board of Directors approved the establishment of the Antennas America, Inc. 401(k) Plan for employee contributions effective January 1, 2000. The name of the Plan was subsequently changed to the ARC Wireless Solutions, Inc. 401(k) Plan. The Plan allows for discretionary matching in Company common stock of employee contributions by the Company if the Company has a profit for the preceding year. Effective January 1, 2007 the Plan was amended to elect a Safe Harbor Contribution of 3% of a participant's compensation. For the year ended December 31, 2007 the Company's Safe Harbor Contribution was $87,000. F-23 10. Commitments Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty. At December 31, 2007, non-cancellable purchase obligations totaled approximately $808,000. Effective February 1, 2008, the Company's Board of Directors approved an employment agreement between the Company and Randall P. Marx, the Company's Chief Executive Officer, effective as of January 31, 2008. Mr. Marx has served as the Company's Chief Executive Officer from November 1991 to July 2000 and from February 2001 to the present. The employment agreement was recommended to the Board by the Compensation Committee. The agreement provides for annual compensation of $250,000 in 2007, $275,000 in 2008 and $300,000 in 2009, with 5% annual increases if the agreement is extended. The agreement may be extended by mutual consent on an annual basis for 2010, 2011 and 2012. Mr. Marx will receive a bonus of $25,000 for 2007 and will also be eligible to receive a bonus in 2008 and subsequent years, ranging from $50,000 to $300,000, if certain net income goals are achieved. Effective November 1, 2007, the Company entered into a two year employment agreement with Mr. Monty R. Lamirato as the Company's Chief Financial Officer, which he has served since June 2001. The agreement provides for annual compensation of $165,000 in the first year and $175,000 in the second year. Effective

November 1, 2007, the Company entered into a five year employment agreement with Mr. Steven C. Olson, as President and Chief Technology Officer of the Company's Wireless Communications Solutions Division. Mr. Olson has been with the Company since 2001. The agreement provides for annual base compensation of $200,000 in 2007 increasing annually to $245,000 in 2011. Mr. Olson shall also be entitled to bonuses ranging from $5,000 to $100,000 annually contingent upon the Wireless Communications Solutions Division achieving certain net income targets. Mr. Olson earned a bonus of $7,500 for 2007. Effective November 1, 2007, the Company entered into a three year employment agreement with Mr. Richard A. Anderson, as the Company's Executive Vice President. Mr. Anderson has been with the Company since 1994. The agreement provides for annual compensation of $125,000. 11. Segment Information SFAS No. 131 "Disclosure about Segments of an Enterprise and Related Information" requires that the Company disclose certain information about its operating segments where operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the basis that is used internally for evaluating segment performance and deciding how to allocate resources to segments. The Company has two reportable segments that are separate business units that offer different products as follows: antenna manufacturing and cable products. Each segment consists of a single operating unit and the accounting policies of the reporting segments are the same as those described in the summary of significant accounting policies. Intersegment sales and transfers are recorded at cost plus an agreed upon intercompany profit on intersegment sales and transfers. Due to the sale of Winncom on October 31, 2006, which was the Distribution segment, distribution is no longer classified as an operating segment but is classified as discontinued operations in the accompanying consolidated financial statements for all periods presented. F-24 11. Segment Information, continued For the year ended December 31, 2007, approximately 13% of our sales from continuing operations were from customers outside North America, and for the years ended December 31, 2006 and 2005, less than 7% of our sales from continuing operations were from customers outside North America. Financial information regarding the Company's two operating segments, which includes the elimination of intersegment sales, for the years ended December 31, 2007, 2006 and 2005 are as follows: Manufacturing Cable Corporate Total -- Net Sales 2007 $ 7,931,000 $ 117,000 -- $ 8,048,000 2006 6,087,000 383,000 -- 6,470,000 2005 6,442,000 294,000 -- 6,736,000 Net income (loss) from 2007 (131,000) 40,000 (612,000) (703,000) continuing operations 2006 (467,000) (7,000) (1,132,000) (1,606,000) 2005 1,390,000 (34,000) (783,000) 573,000 Income (loss) before income 2007 (137,000) 40,000 (612,000) (709,000) taxes, continuing operations 2006 (734,000) (7,000) (1,132,000) (1,873,000) 2005 914,000 (34,000) (782,000) 98,000 Identifiable assets, 2007 3,249,000 108,000 14,555,000 17,912,000 continuing operations 2006 3,082,000 220,000 14,673,000 17,975,000 2005 3,730,000 192,000 (957,000) 2,965,000 Capital expenditures, 2007 99,000 -- -- 99,000 continuing operations 2006 80,000 -- -- 80,000 2005 74,000 -- -- 74,000 Depreciation and 2007 181,000 -- -- 181,000 amortization, continuing 2006 162,000 -- -- 162,000 operations 2005 184,000 3,000 -- 187,000 Interest expense, 2007 24,000 -- -- 24,000 continuing operations 2006 124,000 -- -- 124,000 2005 123,000 -- -- 123,000 Corporate represents the operations of the parent Company, excluding segment eliminations. F-25 EXHIBIT INDEX Exhibit Number Description ------------- ---------- 3.1 Amended and Restated Articles of Incorporation dated October 11, 2000 (1) 3.2 Bylaws of the Company as amended and restated on March 25, 1998 (2) 10.1 Agreement between and among Winncom Technologies Inc., Winncom Technologies Corp. and the Company dated May 24, 2000 (3) 10.2 Stock Purchase Agreement, dated as of July 28, 2006, by and among Bluecoral Limited, Winncom Technologies Corp. and The Company (4) 10.3 Escrow Agreement, dated July 28, 2006, by and among the Company, Bluecoral Limited and Consumer Title Services, LLC (4) 10.4 Employment Agreement effective January 31, 2008 between the Company and Randall P. Marx (5) 10.5 Employment Agreement effective November 1, 2007 between the Company and Monty R. Lamirato (6) 10.6 Employment Agreement effective November 1, 2007 between the Company and Steve C. Olson (6) 10.7 Employment Agreement effective November 1, 2007 between the Company and Richard L. Anderson (6) 14.1 Amended and Restated Code of Ethics (7) 21.1 Subsidiaries of the Registrant 31.1 Officers' Certifications of Periodic Report pursuant to Section 302 of Sarbanes-Oxley Act of 2002 32.1 Officers' Certifications of Periodic Report pursuant to Section 906 of Sarbanes-Oxley Act of 2002 99.1 Nominating Policies and Procedures ----------------- (1) Incorporated by reference from the Company's Form 10-KSB for December 31, 2000 filed on April 2, 2001. (2) Incorporated by reference from the Company's Form 10-KSB for December 31, 1997 filed on March 31, 1998. (3) Incorporated by reference from Exhibit 2.1 of the Company's Form 8-K filed on June 8, 2000. (4)

Incorporated by reference from the Company's Form 8-K/A filed on August 2, 2006. (5) Incorporated by reference from the Company's Form 8-K filed on February 7, 2008. (6) Incorporated by reference from the Company's Form 8-K file November 8, 2007d . (7) Incorporated by reference from the Company's Form 8-K filed on November 13, 2006. EXHIBIT 21 ---------- SUBSIDIARIES ------------ ARC Wireless Hong Kong Limited StarworksWireless,Inc.