ARCH WIRELESS INC
Form 10-Q/A
May 23, 2001

QUARTERLY REPORT UNDER SECTION 13 0R 15 (D)
OF THE SECURITIES EXCHANGE ACT OF 1934

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

Amendment No. 1 TO Form 10-Q on
Form 10-Q/A

(Mark One)

[X] Quarterly Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2001
or
[ ] Transition Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934
For the transition period from
______________ to _____________

Commission File Numbers 0-23232/1-14248

ARCH WIRELESS, INC.
(Exact name of Registrant as specified in its Charter)

DELAWARE	31-1358569
(State of incorporation)	(I.R.S. Employer Identification No.)

1800 WEST PARK DRIVE, SUITE 250	
WESTBOROUGH, MASSACHUSETTS	01581
(address of principal executive offices)	(Zip Code)

(508) 870-6700
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months or for such shorter period that the Registrant was required to file such reports, and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 181,753,093 shares of the Company's Common Stock ($.01 par value) and 681,497 shares of the Company's Class B Common Stock ($.01 par value) were outstanding as of April 18, 2001.

ARCH WIRELESS, INC.
AMENDMENT No. 1 TO
QUARTERLY REPORT ON FORM 10-Q

EXPLANATORY NOTE

Following the delisting of the Company's Common Stock from the Nasdaq National Market on April 30, 2001, the Company has determined that the Series C Convertible Preferred Stock should be classified as temporary equity rather than equity. This Form 10-Q/A is being filed to reflect that reclassification. The consolidated financial statements and notes thereto filed herewith reflect no other changes from the consolidated financial statements and notes thereto filed with the Form 10-Q on May 3, 2001.

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ARCH WIRELESS, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(in thousands)

	March 31, 2001	December 31, 2000

ASSETS	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 92,268	$ 55,007
Accounts receivable, net	117,815	134,396
Inventories	2,696	2,163
Prepaid expenses and other	28,516	19,877
Total current assets	241,295	211,443
Property and equipment, at cost	1,444,148	1,442,072
Less accumulated depreciation and amortization	(503,174)	(444,650)
Property and equipment, net	940,974	997,422
Intangible and other assets, net	936,361	1,100,744
	$ 2,118,630	$ 2,309,609

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Current maturities of long-term debt	$ 37,640	$ 177,341
Accounts payable	64,607	55,282
Accrued restructuring	38,079	60,424
Accrued interest	39,294	39,140
Accrued expenses and other liabilities	134,543	165,459
Total current liabilities	314,163	497,646
Long-term debt, less current maturities	1,624,939	1,679,219
Other long-term liabilities	335,114	74,509
Deferred income taxes	86,494	121,994
Redeemable preferred stock	31,107	30,505
Stockholders' equity (deficit):		
Common stock-- $.01 par value	1,723	1,635
Additional paid-in capital	1,103,044	1,095,779
Accumulated other comprehensive income	265	(82)
Accumulated deficit	(1,378,219)	(1,191,596)
Total stockholders' equity (deficit)	(273,187)	(94,264)
	$ 2,118,630	$ 2,309,609

The accompanying notes are an integral part of these consolidated condensed financial statements.

ARCH WIRELESS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(unaudited and in thousands, except share and per share amounts)

	Three Months Ended March 31, 2001	2000
Revenues	$ 327,429	$ 189,99
Cost of products sold	(11,511)	(8,88
	315,918	181,11
Operating expenses:		
Service, rental, and maintenance	81,043	39,11
Selling	36,656	25,04
General and administrative	108,677	53,93
Depreciation and amortization	247,088	90,70
Total operating expenses	473,464	208,80
Operating income (loss)	(157,546)	(27,68
Interest expense, net	(63,927)	(41,30
Other expense	(8,210)	(1,20
Income (loss) before income tax benefit and extraordinary item and accounting change	(229,683)	(70,19
Benefit from income taxes	35,500	-
Income (loss) before extraordinary item and accounting change	(194,183)	(70,19
Extraordinary gain from early extinguishment of debt	14,956	7,61
Cumulative effect of accounting change	(6,794)	-
Net income (loss)	(186,021)	(62,57
Preferred stock dividend	(602)	(56
Net income (loss) to common stockholders	$ (186,623)	$ (63,13
Basic/diluted net income (loss) per common share before extraordinary item and accounting change	$ (1.17)	$ (1.2
Extraordinary gain per basic/diluted common share	0.09	0.1
Cumulative effect of accounting change per basic/diluted common share	(0.04)	-
Basic/diluted net income (loss) per common share	$ (1.12)	$ (1.1
Basic/diluted weighted average number of common shares outstanding	167,193,881	55,316,69

The accompanying notes are an integral part of these consolidated condensed financial statements.

ARCH WIRELESS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(unaudited and in thousands)

	Three Months Ended March 31, 2001	Three Months Ended March 31, 2000
Net cash provided by operating activities	$ (9,581)	$ 31,915
Cash flows from investing activities:		
Additions to property and equipment, net	(25,750)	(30,858)
Additions to intangible and other assets	(2,757)	(1,996)
Acquisition of company, net of cash acquired	174	--
Net cash used for investing activities	(28,333)	(32,854)
Cash flows from financing activities:		
Issuance of long-term debt	1,045	18,000
Issuance of notes payable to Nextel	250,000	--
Repayment of long-term debt	(175,836)	(16,000)
Net cash provided by financing activities	75,209	2,000
Effect of exchange rate changes on cash	(34)	--
Net increase in cash and cash equivalents	37,261	1,061
Cash and cash equivalents, beginning of period	55,007	3,161
Cash and cash equivalents, end of period	$ 92,268	$ 4,222
Supplemental disclosure:		
Interest paid	$ 52,922	$ 29,057
Accretion of discount on senior notes and assumed bank debt	$ 12,188	$ 9,428
Issuance of common stock in exchange for debt	$ 7,353	$ 155,623

The accompanying notes are an integral part of these consolidated condensed financial statements.

ARCH WIRELESS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(unaudited)

(a) Preparation of Interim Financial Statements - The consolidated condensed financial statements of Arch Wireless, Inc. have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. The financial information included herein, other than the consolidated condensed balance sheet as of December 31, 2000, has been prepared by management without audit by independent accountants who do not express an opinion thereon. The consolidated condensed balance sheet at December 31, 2000 has been derived from, but does not include all the disclosures contained in, the audited consolidated financial statements for the year ended December 31, 2000. In the opinion of management, all of these unaudited statements include all adjustments and accruals consisting only of normal recurring accrual adjustments which are necessary for a fair presentation of the results of all interim periods reported herein. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in Arch's Annual Report on Form 10-K for the year ended December 31, 2000. The results of operations for the periods presented are not necessarily indicative of the results that may be expected for a full year.

(b) Intangible and Other Assets - Intangible and other assets, net of accumulated amortization, are comprised of the following (in thousands):

	March 31, 2001 (unaudited)	December 31, 2000
Purchased Federal Communications Commission licenses	$ 414,018	$ 451,431
Purchased subscriber lists	341,181	412,015
Goodwill	108,649	163,027
Restricted cash	39,451	35,280
Deferred financing costs	18,937	24,905
Other	14,125	14,086
	$ 936,361	$1,100,744

(c) Divisional Reorganization - As of March 31, 2001, 1,081 former Arch and MobileMedia employees had been terminated due to the divisional reorganization, and the MobileMedia and PageNet integrations. The Company's restructuring activity as of March 31, 2001 is as follows (in thousands):

	Reserve Balance at December 31, 2000	Utilization of Reserve in 2001	Remaining Reserve
Severance costs	$ 2,957	$ 1,904	$ 1,053
Lease obligation costs	10,776	1,902	8,874
Other costs	162	26	136
Total	$13,895	$ 3,832	$10,063

(d) PageNet Acquisition Reserve - As of March 31, 2001, 842 former PageNet employees had been terminated. The Company's restructuring activity as of March 31, 2001 is as follows (in thousands):

	Reserve Balance at December 31, 2000	Utilization of Reserve in 2001	Remaining Reserve
Severance costs	$36,767	$16,738	$20,029
Lease obligation costs	9,264	1,694	7,570
Other costs	500	83	417
Total	$46,531	$18,515	$28,016

(e) Nextel Agreement - In January 2001, Arch agreed to sell its 900 MHz SMR (Specialized Mobile Radio) licenses to Nextel Communications, Inc. Nextel will acquire the licenses for an aggregate purchase price of $175 million and invest $75 million in a new equity issue, Arch Series F 12% Redeemable Cumulative Junior Preferred Stock. In February 2001, Nextel advanced $250 million in the form of loans to a newly created, stand-alone Arch subsidiary that holds the spectrum licenses until the transfers are approved. The new Arch subsidiary is not permitted to engage in any business other than ownership and maintenance of the spectrum licenses and will not have any liability or obligation with respect to any of the debt obligations of Arch and its subsidiaries. Upon transfer of the spectrum licenses to Nextel, the loan obligations will be satisfied and $75 million of the loans will be converted into Arch series F 12% Redeemable Cumulative Junior Preferred Stock. Arch acquired the SMR licenses as part of its acquisition of PageNet in November 2000. In purchase accounting the licenses were recorded at their fair value of $175.0 million and are included the purchased Federal Communications Commission licenses balance in Note (b) above. No gains or losses resulting from changes in the carrying amounts of assets to be disposed of have been included in Arch's statement of operations. No amortization has been recorded on the licenses. Revenues and operating expenses related to the SMR operation included in the statement of operations are immaterial.

(g) Debt Exchanged for Equity - In the first quarter of 2001, Arch issued 8,793,350 shares of Arch common stock in exchange for $26.3 million accreted value ($26.5 million maturity value) of its senior discount notes. Arch recorded an extraordinary gain of $15.0 million on the early extinguishment of debt as a result of these transactions.

(h) Derivative Instruments and Hedging Activities - In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 requires that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value and that changes in the derivative's fair value be recognized in earnings. Arch adopted this standard effective January 1, 2001. The Company has not designated any of the outstanding derivatives as a hedge under SFAS No. 133. The initial application of SFAS No. 133 resulted in a $6.8 million charge, which was reported as the cumulative effect of a change in accounting principle. This charge represents the impact of initially recording the derivatives at fair value as of January 1, 2001. The changes in fair value of the derivative instruments will be recognized in other expense. The Company recorded other expense of approximately $5.9 million related to the changes in fair value of the derivatives during the period ended March 31, 2001.

(i) Segment Reporting - The Company has determined that it has three reportable segments; traditional paging operations, two-way messaging operations and international operations. Management makes operating decisions and assesses individual performances based on the performance of these segments. The traditional paging operations consist of the provision of paging and other one-way wireless messaging services to Arch's U.S. customers. Two-way messaging operations consist of the provision of two-way wireless messaging services to Arch's U.S. customers. International operations consist of the operations of the Company's Canadian subsidiary.

7

Each of these segments incur, and are charged, direct costs associated with their separate operations. Common costs shared by the traditional paging and two-way messaging operations are allocated based on the estimated utilization of resources using various factors that attempt to mirror the true economic cost of operating each segment.

The Company did not begin to market and sell its two-way messaging products on a commercial scale until August 2000. The Company's Canadian subsidiary was acquired in November 2000 in the PageNet acquisition. Prior to 2000, substantially all of the Company's operations were traditional paging operations. The following tables present segment financial information related to the Company's segments for the periods indicated (in thousands):

March 31, 2001	Traditional Paging Operations	Two-way Messaging Operations	International Operations

Revenues..............................	$ 305,266	$ 17,247	$ 4,916
Depreciation and amortization expense..	228,174	13,874	5,040
Operating income (loss)...............	(131,673)	(21,582)	(4,291)
Adjusted EBITDA(1)....................	96,501	(7,708)	749
Total assets..........................	1,801,531	261,600	55,499
Capital expenditures..................	17,270	10,337	900

March 31, 2000	Traditional Paging Operations	Two-way Messaging Operations	International Operations
Revenues..............................	$ 189,995	$ --	$ --
Depreciation and amortization expense..	90,707	--	--
Operating income (loss)...............	(25,065)	(2,621)	--
Adjusted EBITDA(1)....................	65,642	(2,621)	--
Total assets..........................	1,295,468	--	--
Capital expenditures..................	32,854	--	--

(1) Adjusted earnings before interest, income taxes, depreciation and amortization, as determined by Arch, does not reflect interest, income taxes, depreciation and amortization, restructuring charges, equity in loss of affiliate and extraordinary items; consequently adjusted earnings before interest, income taxes, depreciation and amortization may not necessarily be comparable to similarly titled data of other wireless messaging companies. Earnings before interest, income taxes, depreciation and amortization should not be construed as an alternative to operating income or cash flows from operating activities as determined in accordance with generally accepted accounting principles or as a measure of liquidity. Amounts reflected as earnings before interest, income taxes, depreciation and amortization or adjusted earnings before interest, income taxes, depreciation and amortization are not necessarily available for discretionary use as a result of restrictions imposed by the terms of existing indebtedness or limitations imposed by applicable law upon the payment of dividends or distributions among other things.

8

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report on Form 10-Q/A for the quarter ended March 31, 2001, to be signed on its behalf by the undersigned thereunto duly authorized.

ARCH WIRELESS, INC.

Dated: May 21, 2001

By: /s/ J. Roy Pottle

J. Roy Pottle
Executive Vice President and
Chief Financial Officer