ARCH WIRELESS INC
Form 10-Q
May 03, 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

FORM 10-Q

(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.
QUARTERLY REPORT ON FORM 10-Q
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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
Stockholders' equity (deficit):		
Preferred stock-- $.01 par value	3	3
Common stock-- $.01 par value	1,723	1,635
Additional paid-in capital	1,134,148	1,126,281
Accumulated other comprehensive income	265	(82)
Accumulated deficit	(1,378,219)	(1,191,596)
Total stockholders' equity (deficit)	(242,080)	(63,759)
	$ 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,	Utilization of Reserve in	Remaining

	2000	2001	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.

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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.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains forward-looking statements. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes", "anticipates", "plans", "expects" and similar expressions are intended to identify forward-looking statements. There are a number of important factors that could cause the Company's actual results to differ materially from those indicated or suggested by such forward-looking statements. These factors include, without limitation, those set forth below under the caption "Factors Affecting Future Operating Results".

RESULTS OF OPERATIONS

Revenues increased to $327.4 million, a 72.3% increase, for the three months ended March 31, 2001 from $190.0 million for the three months ended March 31, 2000 as the number of units in service increased from 6.9 million at March 31, 2000 to 11.1 million at March 31, 2001 due to the PageNet acquisition in November 2000. Net revenues (revenues less cost of products sold) increased to

$315.9 million, a 74.4% increase, for the three months ended March 31, 2001 from $181.1 million for the corresponding 2000 period. Revenues and net revenues in the periods ended March 31, 2000 and 2001 were adversely affected by (1) the declining demand for traditional paging services and (2) subscriber cancellations which led to a decrease of 784,000 units in service for the quarter ended March 31, 2001. For the three months ended March 31, 2001 two-way messaging revenues and net revenues were $17.2 million and $14.5 million, respectively. The Company did not begin to sell its two way messaging products on a commercial scale until August 2000.

Revenues consist primarily of recurring revenues associated with the provision of messaging services, rental of leased units and product sales. Product sales represented less than 10% of total revenues for the three months ended March 31, 2001 and 2000. Arch does not differentiate between service and rental revenues.

Arch believes the demand for traditional messaging services declined in 2000, and will continue to decline in the following years and that future growth in the wireless messaging industry will be attributable to two-way messaging and information services. As a result, Arch expects to continue to experience significant declines of units in service during 2001 as Arch's addition of two-way messaging subscribers will likely be exceeded by its loss of traditional messaging subscribers.

Service, rental and maintenance expenses, which consist primarily of telephone, third party carrier fees, site rental expenses and repairs and maintenance expenses, increased to $81.0 million, or 25.7% of net revenues, in 2001 from $39.1 million, or 21.6% of net revenues, in 2000. The increase was due to the acquisition of PageNet in November 2000. For the three months ended March 31, 2001 and 2000, there was $11.1 million and $1.2 million, respectively, of service, rental and maintenance expenses associated with the provision of two-way messaging and information services.

Selling expenses increased to $36.7 million, or 11.6% of net revenues, for the three months ended March 31, 2001 from $25.0 million, or 13.8% of net revenues, for the corresponding 2000 period. The increase in dollar amount was due to the acquisition of PageNet. Selling expenses related to two-way messaging and information services were $7.2 million and $0.1 million for the three months ended March 31, 2001 and 2000, respectively.

General and administrative expenses increased to $108.7 million, or 34.4% of net revenues, for the three months ended March 31, 2001 from $53.9 million, or 29.8% of net revenues, in 2000. The increase was due to increased headcount, administrative and facility costs associated with PageNet. General and administrative expenses associated with the provision of two-way messaging and information services were $3.9 million in the 2001 period and $1.3 million in the 2000 period.

Depreciation and amortization expenses increased to $247.1 million in 2001 from $90.7 million in 2000. The increase in these expenses principally reflect the acquisition of PageNet as well as incremental depreciation and amortization expense as a result of reducing the remaining lives on messaging equipment and certain intangible assets in the fourth quarter of 2000.

Operating losses were $157.5 million for the three months ended March 31, 2001 compared to $27.7 million in 2000, as a result of the factors outlined above.

Net interest expense increased to $63.9 million for the three months ended 2001 from $41.3 million for the corresponding 2000 period. The increase was principally attributable to an increase in Arch's outstanding debt due to the PageNet acquisition. Interest expense for the three months ended March 31, 2000 and 2001 included approximately $9.4 million and $12.2 million, respectively, of accretion on assumed bank debt and Arch's senior debt, the payment of which was deferred.

Other expense increased to $8.2 million for the three months ended March 31, 2001 from $1.2 million for the three months ended March 31, 2000. In 2001, other expense includes a $5.9 million charge resulting from the application of SFAS No. 133. See note (h) to the Consolidated Condensed Financial Statements.

For the three months ended March 31, 2001 and 2000, Arch recognized extraordinary gains of $15.0 million and $7.6 million, respectively, on the retirement of debt exchanged for Arch stock.

Arch recognized an income tax benefit of $35.5 million for the three months ended March 31, 2001. The benefit represented the tax benefit of operating losses incurred subsequent to the acquisition of PageNet which were available to offset deferred tax liabilities arising from the PageNet acquisition.

On January 1, 2001, Arch adopted 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. Initial application of SFAS No. 133 resulted in a $6.8 million charge in the quarter ended march 31, 2001, 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.

Net loss increased to $186.6 million for the three months ended March 31, 2001 from $62.6 million for the corresponding 2000 period, as a result of the factors outlined above.

LIQUIDITY AND CAPITAL RESOURCES

Arch's business strategy requires the availability of substantial funds to finance the expansion of existing operations, to fund capital expenditures for messaging devices and system equipment, to service debt.

Capital Expenditures and Commitments

Arch's capital expenditures decreased from $32.9 million for the three months ended March 31, 2000 to $28.5 million for the three months ended March 31, 2001. These capital expenditures primarily include the purchase of wireless messaging devices, system and transmission equipment, information systems and capitalized financing costs. Arch generally has funded its capital expenditures with net cash provided by operating activities and the incurrence of debt. Arch estimates that capital expenditures for 2001 will be approximately $130 million. Arch believes that it will have sufficient cash available from operations and the proceeds of the Nextel transaction, as described below, to fund its capital expenditures for the remainder of the year.

Sources of Funds

Sale of SMR Licenses

In January 2001, Arch announced an agreement with Nextel Communications, Inc. to sell its Specialized Mobile Radio (SMR) licenses to Nextel for an aggregate

purchase price of $175 million. Concurrent with this transaction, Nextel agreed to invest $75 million in Arch Series F 12% Redeemable Cumulative Junior Preferred Stock.

Pursuant to these transactions, in February 2001, Nextel advanced $250 million to Arch in the form of a $175 million loan secured by a pledge of the shares of the Arch subsidiary which owns the SMR licenses, and a $75 million unsecured loan. Upon receipt of regulatory approvals, the SMR licenses will be transferred to Nextel and the principal amount of the $175 million loan will be satisfied in consideration for such transfer, and the principal amount of the

$75 million unsecured loan will be exchanged for shares of Arch Series F Preferred stock. Interest payments on such loans shall be made in shares of Series F preferred stock.

Arch used $175.2 million of the proceeds from these transactions to prepay all required 2001 amortization payments under its senior credit facility. The remaining $75 million of proceeds, with the exception of $5 million of escrowed cash, is available for working capital purposes. At March 31, 2000, Arch had approximately $92 million of cash on hand and no additional borrowing capacity under its senior credit facility.

Arch believes that based on its current cash position and projected requirements, it will have sufficient cash to fund operations through December 31, 2001. Arch's ability to borrow in the future will depend, in part, on its ability to continue to increase its adjusted earnings before interest, income taxes, depreciation and amortization.

Equity Issued in Exchange for Debt

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 107/8% senior discount notes. See note (g) to the consolidated condensed financial statements.

FACTORS AFFECTING FUTURE OPERATING RESULTS

The following important factors, among others, could cause Arch's actual operating results to differ materially from those indicated or suggested by forward-looking statements made in this Form 10-Q or presented elsewhere by Arch's management from time to time.

Arch may not be able to amend the terms of, or refinance, scheduled debt repayments. Failure to amend scheduled 2002 debt repayments could lead to possible defaults and liquidity problems.

Arch's credit facility originated in June 1998 and was amended in conjunction with both the MobileMedia and PageNet acquisitions. Scheduled debt repayments between March 2002 and June 2006 were established based on expectations at the time of these transactions. Arch may not be able to repay amounts currently scheduled to be paid in 2002. If Arch's lenders do not agree to amend scheduled repayments Arch may not be able to meet its repayment obligations and its lenders could declare a default and seek immediate repayment. Such actions by Arch's lenders would prohibit interest payments on Arch's senior notes and would allow senior noteholders to declare a default and seek immediate repayment. Any action that would accelerate Arch's debt obligations could result in immediate liquidity problems.

Leverage is significant and may continue to burden Arch's operations, impair its ability to obtain additional financing, reduce the amount of cash available for operations and required debt repayments and make Arch more vulnerable to financial downturns.

Arch has been highly leveraged, and remains leveraged to a substantial degree. Arch's ratio of total debt to latest three month annualized adjusted earnings before interest, income taxes, depreciation and amortization was 4.6 to 1 as of March 31, 2001.

Adjusted earnings before interest, income taxes, depreciation and amortization is not a measure defined by generally accepted accounting principles and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles. Adjusted earnings before interest, income taxes, depreciation and amortization, as determined by Arch, may not necessarily be comparable to similarly titled data of other wireless messaging companies.

Leverage may:

- o limit Arch's ability to refinance or amend the terms of its existing debt obligations, including scheduled repayments between March 2002 and June 2006.
- o impair Arch's ability to obtain additional financing necessary for working capital, capital expenditures or other purposes on acceptable terms, if at all.

- o require a substantial portion of Arch's cash flow to be used to pay interest expense; for example, interest payments will commence on September 15, 2001 on Arch's 107/8% senior discount notes requiring interest payments of $7.5 million on March 15 and September 15 of each year until March 15, 2008.

Arch may not be able to reduce its financial leverage as it intends, and may not be able to achieve an appropriate balance between growth which it considers acceptable and future reductions in financial leverage. If Arch is not able to achieve continued growth in adjusted earnings before interest, income taxes, depreciation and amortization, it may not be able to amend or refinance its existing debt obligations and it may be precluded from incurring additional indebtedness due to cash flow coverage requirements under existing or future debt instruments.

Restrictions under debt instruments may prevent Arch from declaring dividends, incurring or repaying debt, making acquisitions, altering lines of business or taking actions which its management considers beneficial.

Various debt instruments impose operating and financial restrictions on Arch. Arch's credit facility requires various operating subsidiaries to maintain specified financial ratios, including a maximum leverage ratio, a minimum interest coverage ratio, a minimum debt service coverage ratio and a minimum fixed charge coverage ratio. It also limits or restricts, among other things, Arch's operating subsidiaries' ability to:

- o declare dividends or repurchase capital stock;
- o incur or pay back indebtedness; o engage in mergers, consolidations, acquisitions and asset sales; or
- o alter its lines of business or accounting methods, even though these actions would otherwise benefit Arch.

A breach of any of these covenants could result in a default under the credit

facility and/or other debt instruments. Upon the occurrence of an event of default, the creditors could elect to declare all amounts outstanding to be immediately due and payable, together with accrued and unpaid interest. If Arch were unable to repay any such amounts, the lenders could proceed against any collateral securing the indebtedness. If the lenders under the credit facility or other debt instruments accelerated the payment of such indebtedness, there can be no assurance that the assets of Arch would be sufficient to repay in full such indebtedness and other indebtedness of Arch.

Arch's common stock has been delisted from the Nasdaq National Market.

On November 13, 2000, Arch received a notice from the Nasdaq National Stock Market that its common stock had failed to maintain a minimum bid price of $1.00 over the previous 30 consecutive trading days as required for continued listing on the Nasdaq National Market. Effective with the opening of the market on April 30, 2001, Arch's common stock was no longer listed on the Nasdaq National Stock Market but is eligible for quotation on the OTC Bulletin Board. Trading in shares of Arch's common stock could decrease substantially and the market price of its common stock may decline further.

Recent declines in Arch's units in service may continue or even accelerate; this trend may impair Arch's financial results.

For the three months ended December 31, 2000, Arch experienced a decrease of 1,502,000 units in service; 504,000 due to subscriber cancellations and 998,000 due to definitional changes. For the three months ended March 31, 2001 Arch experienced a further decrease of 784,000 units in service due to subscriber cancellations. Arch believes the demand for traditional messaging services declined in 2000 and will continue to decline in the following years and that future growth in the wireless messaging industry will be attributable to two-way messaging and information services. As a result, Arch expects to continue to experience significant declines of units in service during 2001 as Arch's addition of two-way messaging subscribers will likely be exceeded by its loss of traditional messaging subscribers.

Cancellation of units in service can significantly affect the results of operations of wireless messaging service providers. The sale and marketing costs associated with attracting new subscribers are substantial compared to the costs of providing service to existing customers. Because the wireless messaging business is characterized by high fixed costs, cancellations directly and adversely affect earnings before interest, income taxes, depreciation and amortization.

Competition from larger telephone, cellular and PCS companies is intensifying and may reduce Arch's revenues and adjusted earnings before interest, income taxes, depreciation and amortization.

Wireless messaging companies like Arch, whose units in service have been declining, increasingly compete for market share against large telephone, cellular and PCS providers like AT&T Wireless, Cingular, MCI/WorldCom, Sprint PCS, Verizon and Nextel. Arch will also compete with other messaging companies that continue to offer traditional and two-way messaging services. Some competitors possess greater financial, technical and other resources than those available to Arch. If any of such competitors were to devote additional resources to their wireless messaging business or focus on Arch's historical business segments, they could secure Arch's customers and reduce demand for its products. This could materially reduce Arch's revenues and earnings before

interest, income taxes, depreciation and amortization and have a material adverse effect on earnings before interest, income taxes, depreciation and amortization.

Mobile, cellular and PCS telephone companies have introduced phones and services with substantially the same features and functions as the two-way messaging products and services provided by Arch, and have priced such devices and services competitively. The future growth and profitability of Arch depends on the success of its two-way messaging services.

Arch's two-way messaging services will compete with other available mobile wireless services, which have already demonstrated high levels of market acceptance, including cellular, PCS and other mobile phone services. Many of these other mobile wireless phone services now include wireless messaging as an adjunct service or may replace send-and-receive messaging services entirely. It is less expensive for an end user to enhance a cellular, PCS or other mobile phone with modest data capability than to use both a mobile phone and a pager. This is because the nationwide cellular, PCS and other mobile phone carriers have subsidized the purchase of mobile phones more heavily and because prices for mobile wireless services have been declining rapidly. In addition, the availability of coverage for these services has increased, making the two types of service and product offerings more comparable. Thus, companies other than Arch seeking to provide wireless messaging services may be able to bring their products to market faster or in packages of products that consumers and businesses find more valuable than those to be provided by Arch. If this occurs, Arch's market share will erode and financial operations will be impaired.

Arch may need additional capital to expand its business and to refinance existing debt, which could be difficult to obtain. Failure to obtain additional capital may preclude Arch from developing or enhancing its products, taking advantage of future opportunities, growing its business or responding to competitive pressures.

Arch's business strategy requires substantial funds to be available to finance the continued development and future growth and expansion of its operations, including the development and implementation of two-way messaging services. Arch's future capital requirements will depend on factors that include:

- subscriber growth;
- the type of wireless messaging devices and services demanded by customers;
- technological developments;
- competitive conditions;
- the nature and timing of Arch's strategy for developing technical resources to provide two-way messaging services; and
- acquisition strategies and opportunities.

Revenues and operating results may fluctuate, leading to fluctuations in trading prices and possible liquidity problems.

Arch believes that future fluctuations in its revenues and operating results may occur due to many factors, particularly the decreased demand for traditional messaging services and the uncertain market for two-way messaging services. Arch's current and planned expenses and debt repayment levels, are to a large extent, fixed in the short term, and are based in part on past expectations as to future revenues and cash flow growth. Arch may be unable to adjust spending

in a timely manner to compensate for any past or future revenue or cash flow shortfall. It is possible that, due to these fluctuations, Arch's revenue, cash

flow or operating results may not meet the expectations of securities analysts or investors. If shortfalls were to cause Arch not to meet the financial covenants or debt repayment schedules contained in its debt instruments, the debtholders could declare a default and seek immediate repayment. This may have a material adverse effect on the price of Arch's common stock and its liquidity.

Continued net losses are likely and Arch cannot predict whether it will ever be profitable.

Arch has reported net losses in the past. Arch expects that it will continue to report net losses and cannot give any assurance about when, if ever, it is likely to attain profitability. Many of the factors that will determine whether or not Arch attains profitability are inherently difficult to predict. These include the decreased demand for traditional messaging services and the uncertain market for two-way messaging services which compete against services offered by telephone, cellular and PCS providers, new service developments and technological change.

Obsolescence in company-owned units may impose additional costs on Arch.

Technological change may also adversely affect the value of the units owned by Arch that are leased to its subscribers. If Arch's current subscribers request more technologically advanced units, including two-way messaging devices, Arch could incur additional inventory costs and capital expenditures if required to replace units leased to its subscribers within a short period of time. Such additional costs or capital expenditures could have a material adverse effect on Arch's results of operations.

Because Arch depends on Motorola for devices and on Glenayre for other equipment, Arch's operations may be disrupted if it is unable to obtain equipment from them in the future.

Arch does not manufacture any of the equipment customers need to take advantage of its services. It is dependent primarily on Motorola, Inc. to obtain sufficient equipment inventory for new subscribers and replacement needs and on Glenayre Electronics, Inc. for sufficient terminals and transmitters to meet its expansion and replacement requirements. Significant delays in obtaining any of this equipment, could lead to disruptions in operations and adverse financial consequences. Arch's purchase agreement with Motorola for messaging devices expires on October 1, 2001. There can be no assurance that the agreement with Motorola for messaging devices will be renewed or, if renewed, that the renewed agreement will be on terms and conditions as favorable to Arch as those under the current agreement.

Arch relies on third parties to provide satellite transmission for some aspects of its wireless messaging services. To the extent there are satellite outages or if satellite coverage is impaired in other ways, Arch may experience a loss of service until such time as satellite coverage is restored, which could have a material adverse effect due to customer complaints.

Challenges involved in integrating PageNet's operations with those of Arch may strain Arch's capacities and may prevent the combined company from achieving intended synergies.

Arch may not be able to successfully finish integrating PageNet's operations. The combination of the two companies will require, among other things, coordination of administrative, sales and marketing, customer billing and services distribution, accounting and finance functions and conversion of information and management systems. The difficulties of such integration will initially be increased by the need to coordinate geographically separate organizations and to integrate personnel with disparate business backgrounds and corporate cultures and by the fact that PageNet had previously suspended a

significant restructuring of its own operations.

The integration process could cause the disruption of the activities of the two businesses that are being combined. Arch may not be able to retain key employees of PageNet. The process of integrating the businesses of Arch and PageNet may require a disproportionate amount of time and attention of Arch's management and financial and other resources of Arch. Even if integrated in a timely manner, there is no assurance that Arch will operate smoothly or that it will fulfill management's objective of achieving cost reductions and synergies.

In addition to the specific risks described above, an investment in Arch is also subject to many risks which affect all companies, or all companies in its industry.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The majority of the Company's long-term debt is subject to fixed rates of interest or interest rate protection. In the event that the interest rate on the Company's non-fixed rate debt fluctuates by 10% in either direction, Arch believes the impact on its results of operations would be immaterial. The Company transacts infrequently in foreign currency and therefore is not exposed to significant foreign currency market risk.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Arch, from time to time, is involved in lawsuits arising in the normal course of business. Arch believes that its currently pending lawsuits will not have a material adverse effect on its financial condition or results of operations.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On February 14, 2001, Arch issued and sold 1,015,000 shares of its Series F 12% Redeemable Cumulative Junior Preferred Stock to AWI Spectrum Co., LLC, a newly created, indirect subsidiary of Arch, for total consideration of $70,000,000. The Series F preferred stock was issued and sold in connection with the transactions relating to the sale of SMR licenses to Nextel Communications, Inc. discussed above in Item 2 of Part I of this Report under the heading "Liquidity and Capital Resources - Sources of Funds - Sale of SMR Licenses" and on Arch's Current Reports on Form 8-K dated January 24, 2001 and February 13, 2001, which were filed with the Securities and Exchange Commission on February 6, 2001 and February 23, 2001, respectively. The use of proceeds from the sale of the Series F preferred stock, as well as the other proceeds from the transactions relating to the sale of the SMR licenses to Nextel, is described above in Item 2 of Part I of this Report, which description is hereby incorporated herein by reference.

The holders of Series F preferred stock do not have the right to cause the conversion of those shares into Arch's common stock. However, Arch is required to redeem/convert all outstanding shares of Series F preferred stock on the

tenth anniversary of the date that the Series F preferred stock is issued at a redemption/conversion price equal to the liquidation preference of the Series F preferred stock then in effect payable in cash or, at Arch's option so long as shares of Arch's common stock remain listed on the Nasdaq National Market or another national securities exchange, through the issuance of shares of Arch's common stock valued at the then prevailing market price. Additionally, shares of Series F preferred stock are redeemable/convertible, in whole or in part, at Arch's option at any time at a redemption/conversion price equal to the liquidation preference then in effect payable in cash or, at Arch's option so long as shares of Arch's common stock remain listed on the Nasdaq National Market or another national securities exchange, through the issuance of shares of its common stock valued at the then prevailing market price.

The offer and sale of the shares of Series F preferred stock were not registered under the Securities Act of 1933 in reliance upon Section 4(2) thereunder.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

Stockholder Proposals for 2002 Annual Meeting

As set forth in the Company's Proxy Statement for its 2001 Annual Meeting of Stockholders, stockholder proposals submitted pursuant to Rule 14a-8 under the Exchange Act for inclusion in the Company's proxy materials for its 2002 Annual Meeting of Stockholders must be received by the Secretary of the Company at the principal offices of the Company no later than December 11, 2001.

In addition, the Company's By-laws require that the Company be given advance notice of stockholder nominations for election to the Company's Board of Directors and of other matters which stockholders wish to present for action at an annual meeting of stockholders (other than matters included in the Company's proxy statement in accordance with Rule 14a-8). The required notice must be made in writing and delivered or mailed to the Secretary of the Company at the principal offices of the Company, and received not less than 80 days prior to the 2001 Annual Meeting; provided, however, that if less than 90 days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, such nomination shall have been mailed or delivered to the Secretary not later than the close of business on the 10th day following the date on which the notice of the meeting was mailed or such public disclosure was made, whichever occurs first. The 2002 Annual Meeting is currently expected to be held on May 14, 2002. Assuming that this date does not change, in order to comply with the time periods set forth in the Company's By-Laws, appropriate notice would need to be provided no later than February 21, 2002.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) The exhibits listed on the accompanying index to exhibits are filed as part of this Quarterly Report on Form 10-Q.

(b) The following reports on Form 8-K were filed for the quarter for which this report is filed:

Current Report on Form 8-K/A dated November 10, 2000 (updating PageNet acquisition pro forma financial information) filed February 9, 2001.

Current Report on Form 8-K dated January 24, 2001 (reporting sale of SMR licenses to Nextel) filed February 6, 2001.

Current Report on Form 8-K dated February 9, 2001 (updating description of securities) filed February 9, 2001.

Current Report on Form 8-K dated February 13, 2001 (reporting receipt of proceed from Nextel transaction) filed February 23, 2001.

SIGNATURES

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

ARCH WIRELESS, INC.

Dated: May 2, 2001

By: /s/ J. Roy Pottle

J. Roy Pottle
Executive Vice President and
Chief Financial Officer

INDEX TO EXHIBITS

EXHIBIT	DESCRIPTION
10.1*	Executive Employment Agreement between Arch Wireless, Inc, and C. Edward Baker
10.2*	Executive Employment Agreement between Arch Wireless, Inc, and J. Roy Pottle
10.3*	Form of Executive Retention Agreement

* Filed herewith