

USA MOBILITY, INC

FORM 10-Q/A (Amended Quarterly Report)

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Sector	Services
Fiscal Year	12/31

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

Form 10-Q/A

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2005

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 Number 0-51027

USA MOBILITY, INC.

(Exact name of Registrant as specified in its Charter)

DELAWARE

(State of incorporation)

16-1694797

(I.R.S. Employer Identification No.)

6677 Richmond Highway

Alexandria, Virginia

(Address of principal executive offices)

22306

(Zip Code)

(703) 660-6677

(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 ☒
No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☒ No ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 27,215,493 shares of the Registrant's Common Stock (\$0.0001 par value per share) were outstanding as of November 4, 2005.

USA MOBILITY, INC.
QUARTERLY REPORT ON FORM 10-Q/A
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PART I. FINANCIAL INFORMATION

Restatement

As described in our Annual Report on Form 10-K/A for the year ended December 31, 2004, USA Mobility, Inc. (“USA Mobility”, the “Company” or “we”) restated the financial statements and other financial information for the periods 2002, 2003 and 2004 and interim quarterly periods for 2004 and 2005 to reflect certain adjustments.

Only those items affected by the restatement have been changed in this Form 10-Q/A. Those areas include Item 1, 2 and 4 of Part I and Item 6 of Part II. Other information in this Form 10-Q/A has not been updated to reflect the impact of any other items occurring subsequent to the original 10-Q filing date.

For further discussion of the effects of the restatement, see Part 1, Item 1. Financial Statements, Condensed Consolidated Financial Statements and Note 1, Unaudited Notes to Condensed Consolidated Financial Statements, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations and Item 4. Controls and Procedures.

Item 1. *Financial Statements*

USA MOBILITY, INC. CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2004 (Restated) (In thousands)	September 30, 2005 (Restated) (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 46,995	\$ 43,323
Accounts receivable, net	40,078	46,156
Prepaid rent, expenses and other	15,460	13,820
Deferred income tax assets	25,525	26,630
Total current assets	128,058	129,929
Property and equipment, net	220,028	145,495
Goodwill	154,369	151,646
Intangible assets, net	67,129	45,631
Deferred income tax assets	207,046	211,377
Other assets	5,517	4,815
TOTAL ASSETS	\$ 782,147	\$ 688,893
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 47,558	\$ 14
Accounts payable and other accrued liabilities	86,478	77,955
Customer deposits	4,316	3,427
Deferred revenue	23,623	19,929
Total current liabilities	161,975	101,325
Long-term debt, less current maturities	47,500	—
Other long-term liabilities	16,632	22,055
TOTAL LIABILITIES	226,107	123,380
Stockholders’ equity:		
Preferred stock	—	—
Common stock	3	3
Additional paid-in capital	536,252	540,671
Retained earnings	19,785	24,839
TOTAL STOCKHOLDERS’ EQUITY	556,040	565,513
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	\$ 782,147	\$ 688,893

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

USA MOBILITY, INC.
CONDENSED CONSOLIDATED RESULTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2005	2004	2005
	(Restated)	(Restated)	(Restated)	(Restated)
	(In thousands, except share and per share amounts) (Unaudited)			
Revenue:				
Service, rental and maintenance, net of service credits	\$ 104,785	\$ 145,014	\$ 335,505	\$ 455,647
Product sales	4,632	6,940	13,368	19,521
Total revenue	109,417	151,954	348,873	475,168
Operating expenses:				
Cost of products sold	691	945	2,485	3,153
Service, rental and maintenance	36,653	53,739	112,182	166,196
Selling and marketing	7,862	11,276	25,687	32,834
General and administrative	27,615	43,261	88,069	138,179
Depreciation, amortization and accretion	21,867	28,876	76,547	104,695
Stock based compensation	1,865	271	6,040	2,253
Severance and restructuring	1,228	855	5,519	15,896
Total operating expenses	97,781	139,223	316,529	463,206
Operating income	11,636	12,731	32,344	11,962
Interest income (expense), net	71	(18)	(4,958)	(1,731)
Loss on extinguishment of long-term debt	—	(312)	—	(1,338)
Other income, net	66	76	411	140
Income before income tax expense	11,773	12,477	27,797	9,033
Income tax expense	(9,369)	(3,750)	(14,315)	(3,979)
Net income	\$ 2,404	\$ 8,727	\$ 13,482	\$ 5,054
Basic net income per common share	\$ 0.12	\$ 0.32	\$ 0.68	\$ 0.19
Diluted net income per common share	\$ 0.12	\$ 0.32	\$ 0.67	\$ 0.18
Basic weighted average common shares outstanding	19,914,099	27,365,701	19,967,708	27,234,214
Diluted weighted average common shares outstanding	20,041,555	27,465,990	20,091,801	27,408,765

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

USA MOBILITY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2004	2005
	(Restated)	(Restated)
	(Unaudited and in thousands)	
Cash flows from operating activities:		
Net income	\$ 13,482	\$ 5,054
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	76,547	104,695
Amortization of deferred financing costs	—	714
Amortization of stock based compensation	6,040	2,253
Deferred Income tax expense	15,232	(4,685)
Loss on extinguishment of long-term debt	—	1,338
Gain on disposals of property and equipment	(240)	(30)
Provisions for doubtful accounts, service credits and other	7,349	17,221
Changes in assets and liabilities:		
Accounts receivable	(1,395)	(23,558)
Prepaid expenses and other	(7,113)	2,041
Intangibles and other long-term assets	—	5,004
Accounts payable and accrued expenses	(17,489)	(8,741)
Customer deposits and deferred revenue	(6,081)	(4,583)
Other long-term liabilities	975	3,566
Net cash provided by operating activities	87,307	100,289
Cash flows from investing activities:		
Purchases of property and equipment	(15,328)	(9,515)
Proceeds from disposals of property and equipment	1,675	259
Receipts from note receivable	168	259
Net cash used for investing activities	(13,485)	(8,997)
Cash flows from financing activities:		
Repayment of long-term debt	(60,000)	(95,044)
Proceeds from exercise of options	—	80
Purchase of treasury shares	(3,112)	—
Net cash used for financing activities	(63,112)	(94,964)
Net increase (decrease) in cash and cash equivalents	10,710	(3,672)
Cash and cash equivalents, beginning of period	34,582	46,995
Cash and cash equivalents, end of period	\$ 45,292	\$ 43,323
Supplemental disclosure:		
Interest paid	\$ 6,709	\$ 2,210
State income taxes paid	\$ —	\$ 465

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

USA MOBILITY, INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1

Restatement of Prior Interim Period and Annual Financial Statements — During 2005, USA Mobility, Inc. (“USA Mobility” or the “Company”) identified adjustments related to certain assets, liabilities, and expenses of the 2002, 2003 and 2004 consolidated financial statements and 2004 and 2005 interim period financial statements. Accordingly, the Company has restated the 2002, 2003 and 2004 consolidated financial statements and 2004 and 2005 interim period financial statements. The Company’s assessment of certain identified accounting errors resulted in the following adjustments to previously reported periods for 2004 and 2005.

1. *Asset retirement obligations were incorrectly calculated in 2002, 2003 and 2004.* The Company adopted the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 143, *Accounting for Asset Retirement Obligations* (“SFAS No. 143”) in 2002. The Company did not record the initial asset retirement obligation and related asset retirement cost upon emergence from bankruptcy; therefore, the Company understated subsequent accretion expense related to the asset retirement obligation and depreciation expense of the asset retirement cost in 2002. In addition, in 2002, 2003 and 2004 the Company did not correctly use the fair value of costs to deconstruct transmitters to determine the fair value of the asset retirement obligation, which understated reported liabilities and assets. The Company’s expected timing of cash flows of the transmitter deconstructions have also been revised to coincide with their depreciable lives that were estimated during the applicable time period.

Accordingly, the restated financial statements as of December 31, 2002 include increases of \$9.3 million in property and equipment, at cost, \$4.6 million in accumulated depreciation, \$6.3 million in depreciation, amortization and accretion expense, \$2.9 million in current liabilities and \$5.4 million in long-term liabilities, and a decrease of \$2.7 million in service, rental and maintenance expense. The restated financial statements for 2003 include a decrease of \$2.2 million in property and equipment, at cost, increases of \$0.2 million in accumulated depreciation, \$2.8 million in depreciation, amortization and accretion expense, decreases of \$2.2 million in current liabilities, \$0.05 million in long-term liabilities, and \$2.5 million in service, rental and maintenance expense. The restated financial statements for 2004 include a decrease of \$0.05 million in property and equipment, at cost, increases of \$0.9 million in accumulated depreciation, \$2.7 million in depreciation, amortization and accretion expense, \$0.2 million in current liabilities, \$1.1 million in long-term liabilities, and a decrease of \$0.5 million in service, rental and maintenance expense. During the first, second and third quarters of 2004 accumulated depreciation increased by less than \$0.2 million in each quarter. Current liabilities decreased by less than \$0.1 million in each of the first, second and third quarters of 2004. Long-term liabilities increased by \$0.4 million in each of the first, second and third quarters of 2004. Depreciation, amortization and accretion expense increased by \$0.6 million in each of the first, second and third quarters of 2004 while service, rental and maintenance expense decreased by \$0.1 million in the first quarter of 2004 and decreased by \$0.2 million in each of the second and third quarters of 2004. During the first quarter of 2005 there was a \$0.3 million decrease to accumulated depreciation and a decrease of \$0.2 million in each of the second and third quarters. Current liabilities increased by less than \$0.1 million in the first and second quarters of 2005 while in the third quarter, current liabilities increased by \$3.7 million. Long-term liabilities decreased by \$0.4 million in each of the first and second quarters. In the third quarter, long-term liabilities increased by \$6.4 million. Depreciation, amortization and accretion expense increased by \$0.8 million in the first quarter of 2005 and increased by \$0.7 million in each of the second and third quarters. Service, rental and maintenance expense decreased by less than \$0.1 million in the first two quarters of 2005 and \$0.5 million in the third quarter.

2. *Certain adjustments to the value of the deferred tax asset for 2003 and 2004 were not calculated appropriately.* In 2003, the deferred tax asset attributable to state income tax net operating losses (“NOLs”) was overstated due to the misapplication, for accounting purposes, of state laws which govern the realization of NOLs. Previously, the Company valued its 2003 state income tax NOLs based on an erroneous state income tax rate and a single NOL utilization rule rather than on an evaluation of each applicable

USA MOBILITY, INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —
(Continued)

jurisdiction's rate and rules. The Company also determined that its 2003 deferred tax asset for certain fixed assets and intangibles was misstated due to errors in the accounting for tax basis and in the application of a federal limitation. The federal limitation may restrict certain tax depreciation and amortization deductions for a limited time. Accordingly, the restated financial statements include a net \$11.9 million decrease in deferred tax assets and additional paid-in capital as of December 31, 2003.

In addition to the impact of the matters described above, in 2004, an erroneous calculation was used to determine the applicable state income tax rate used to value deferred tax assets. The 2004 calculation did not properly consider the Company's state income tax apportionment. Accordingly, the restated financial statements include a \$19.6 million decrease in deferred tax assets and a \$7.5 million increase to income tax expense for the year ended December 31, 2004. In addition, this error impacted the value attributed to acquired assets resulting in an increase of \$1.7 million to goodwill in 2004.

3. *Certain state and local transactional taxes were not recorded in the appropriate periods.* The Company's process for identifying and recording state and local transactional taxes failed to recognize a \$2.8 million liability for certain transactional taxes imposed by certain jurisdictions in which the Company operates. These errors were initially noted and recognized by the Company in the second and third quarters of 2005 through recognition of additional expense. However, during the preparation of the Company's 2005 financial statements, the Company determined that it is appropriate to restate previous years' financial statements because only \$0.6 million of the liability relates to 2005 and the remaining \$2.2 million was incurred in prior years. To correct these errors, the restated financial statements reflect the recognition of these expenses in the appropriate accounting periods. Accordingly, the restated financial statements include a \$0.5 million, \$0.8 and \$0.7 million increase in general and administrative expense in 2002, 2003 and 2004, respectively, and a \$2.2 million decrease in general and administrative expense in 2005. In addition, this error impacted the value attributed to acquired assets resulting in an increase of \$0.2 million to goodwill in 2004. During each of the first three quarters of 2004 general and administrative expense increased by \$0.2 million with a corresponding offset in accrued taxes. In 2005, the total adjustment to general and administrative expense related to this error was \$2.2 million. The restated interim quarterly financials for the first quarter of 2005 reflects a \$0.2 million increase in general and administrative expense while in the second and third quarters there was a decrease of \$0.9 million and \$1.5 million, respectively. Each of these adjustments was offset in accrued taxes.

4. *Adjustments were required to assets and liabilities acquired as part of the November 2004 acquisition of Metrocall.* As a result of a failure to accurately and completely apply cash receipts at Metrocall, the Company incorrectly allocated the purchase price consideration to other accounts receivable recorded in the historical Metrocall financial statements. This error resulted in an overstatement of other accounts receivable of \$0.7 million at December 31, 2004. Accordingly, the restated financial statements include a decrease in accounts receivable of \$0.7 million with a corresponding increase to goodwill at December 31, 2004.

5. *Depreciation expense was incorrectly calculated in 2003 and 2004.* Depreciation expense did not accurately reflect the expected economic usage of the Company's paging network infrastructure assets. The Company previously established an overall depreciable life of 60 months for its paging infrastructure and accelerated depreciation on specified asset groups. In 2003, the depreciation expense related to certain specified asset groups that were removed from service was not properly calculated.

Accordingly, the restated financial statements for 2003 include an increase in depreciation, amortization and accretion expense and accumulated depreciation of \$7.6 million. The restated financial statements for 2004 reflect a \$9.9 million decrease in depreciation, amortization and accretion expense and accumulated depreciation. The interim quarterly financial statements for the first, second and third quarters of 2004 reflect a decrease in depreciation, amortization and accretion expense and accumulated depreciation of \$0.7 million, \$3.5 million and \$1.2 million, respectively. In 2005, the restated financials for the first three quarters include an

USA MOBILITY, INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS —
(Continued)

increase to depreciation expense and a corresponding decrease to accumulated depreciation of \$0.7 million, \$1.3 million and \$0.6 million, respectively.

6. *Employee severance was not recorded during 2004.* During 2004 certain Arch key executives were terminated, triggering potential future payment of severance benefits. The Company did not appropriately accrue the fair value of certain one-time future termination benefits due to those executives, resulting in an understatement of severance expense and accrued liabilities for the quarter and year ended December 31, 2004 of \$0.9 million. Accordingly, the restated financial statements include an increase in accrued liabilities and severance expense in the fourth quarter of 2004 of \$0.9 million.

7. *Other income was not recorded properly.* The Company determined that a correction of its minority interest in GTES LLC, a consolidated subsidiary, originally recorded in the first quarter of 2005, should be recorded in the fourth quarter of 2004. Accordingly, the restated financial statements include an increase to other income by \$0.2 million and a decrease to other long-term liabilities by \$0.2 million in the fourth quarter of 2004.

None of the restatement items discussed above impacted reported revenues, cash balances or cash flows.

The financial statement line items impacted by these adjustments are summarized in the following tables (in thousands):

	December 31, 2004		September 30, 2005	
	As Previously Reported	As Restated	As Previously Reported	As Restated
ASSETS				
Accounts receivable, net	\$ 37,750	\$ 40,078	\$ 43,424	\$ 46,156
Deferred income tax assets — current	26,906	25,525	26,309	26,630
Total current assets	127,111	128,058	126,879	129,929
Property and equipment, net	216,508	220,028	155,853	145,495
Goodwill	151,791	154,369	148,799	151,646
Deferred income tax assets — long-term	225,253	207,046	216,109	211,377
Total Assets	\$793,309	\$782,147	\$698,086	\$688,893
LIABILITIES AND STOCKHOLDERS' EQUITY				
Accounts payable and other accrued liabilities	\$ 76,420	\$ 86,478	\$ 76,152	\$ 77,955
Total current liabilities	151,917	161,975	99,522	101,325
Other long-term liabilities	10,555	16,632	12,276	22,055
Total Liabilities	209,972	226,107	111,798	123,380
Total Stockholders' Equity	583,337	556,040	586,288	565,513
Total Liabilities and Stockholders' Equity	\$793,309	\$782,147	\$698,086	\$688,893

USA MOBILITY, INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Three Months Ended September 30, 2004		Three Months Ended September 30, 2005	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Service, rental and maintenance	\$ 36,904	\$36,653	\$ 54,607	\$ 53,739
General and administrative	27,438	27,615	44,783	43,261
Depreciation, amortization and accretion	22,302	21,867	27,327	28,876
Stock based compensation	1,865	1,865	76	271
Severance and restructuring	1,228	1,228	1,050	855
Total operating expenses	98,290	97,781	140,064	139,223
Operating income	11,127	11,636	11,890	12,731
Income before income tax (expense)	11,264	11,773	11,636	12,477
Income tax (expense)	(4,527)	(9,369)	(11,281)	(3,750)
Net income	\$ 6,737	\$ 2,404	\$ 355	\$ 8,727
Basic net income per common share	\$ 0.34	\$ 0.12	\$ 0.01	\$ 0.32
Diluted net income per common share	0.34	0.12	0.01	0.32

	Nine Months Ended September 30, 2004		Nine Months Ended September 30, 2005	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Service, rental and maintenance	\$112,880	\$112,182	\$167,685	\$166,196
General and administrative	87,523	88,069	140,405	138,179
Depreciation, amortization and accretion	79,682	76,547	98,751	104,695
Stock based compensation	6,185	6,040	2,155	2,253
Severance and restructuring	5,374	5,519	16,026	15,896
Total operating expenses	319,816	316,529	461,009	463,206
Operating income	29,057	32,344	14,159	11,962
Other income	411	411	297	140
Income before income taxes	24,510	27,797	11,387	9,033
Income tax (expense)	(9,852)	(14,315)	(12,388)	(3,979)
Net income (loss)	\$ 14,658	\$ 13,482	\$ (1,001)	\$ 5,054
Basic net income (loss) per common share	\$ 0.73	\$ 0.68	\$ (0.04)	\$ 0.19
Diluted net income (loss) per common share	0.73	0.67	(0.04)	0.18

(a) *Preparation of Interim Financial Statements* — The consolidated financial statements of USA Mobility, Inc. (“USA Mobility” or the “Company”) have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). The financial information included herein, other than the consolidated balance sheet as of December 31, 2004, (as restated) has been prepared without audit. The consolidated balance sheet at December 31, 2004 has been derived from, but does not include all the disclosures contained in, the audited consolidated financial statements for the year ended December 31, 2004. In the opinion of management, these unaudited statements include all adjustments and accruals, which are necessary for a fair presentation of the results of all interim periods reported herein. All such adjustments are of a normal and recurring nature. These consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in USA Mobility’s Annual Report on Form 10-K/A for the year ended

USA MOBILITY, INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

December 31, 2004. The results of operations for the interim periods presented are not necessarily indicative of the results that may be expected for a full year.

Amounts shown on the statement of results of operations within the Operating Expense categories of cost of products sold; service, rental and maintenance; selling and marketing; and general and administrative are recorded exclusive of depreciation, amortization, accretion, stock based compensation, severance and restructuring charges. These items are shown separately on the Statement of Results of Operations within Operating Expenses.

Reclassifications — Certain prior years' amounts have been reclassified to conform with current year's presentation. Those reclassifications included (1) decreases to restructuring and stock based compensation of \$3.0 million and \$8.1 million, respectively, with a corresponding increase to severance restructuring and other of \$11.1 million for the nine months ended September 30, 2004 and (2) an increase to depreciation, amortization and accretion of \$0.1 million and a \$0.3 million for the three and nine months ended September 30, 2004, respectively, for accretion expense formerly included in service, rental and maintenance expense.

(b) *Merger of Arch and Metrocall* — The merger of Arch Wireless, Inc. and subsidiaries ("Arch") and Metrocall Holdings, Inc. and subsidiaries ("Metrocall") occurred on November 16, 2004. Under the terms of the merger agreement, holders of 100% of the outstanding Arch common stock received one share of the Company's common stock for each common share held of Arch. Holders of 2,000,000 shares of Metrocall common stock received cash consideration totaling \$150 million and the remaining 7,236,868 shares of Metrocall's common stock were each exchanged for 1.876 shares of USA Mobility common stock. Upon consummation of the merger exchange, former Arch and Metrocall common shareholders held approximately 72.5% and 27.5%, respectively, of USA Mobility's common stock on a fully diluted basis.

The merger was accounted for using the purchase method of accounting. Arch was the accounting acquirer. Accordingly, the bases of Arch's assets and liabilities as of the acquisition date are reflected in the balance sheet of USA Mobility at their historical basis. Amounts allocated to Metrocall's assets and liabilities were based upon the total purchase price and the estimated fair values of such assets and liabilities. The results of operations of Metrocall have been included in the USA Mobility results from November 16, 2004, therefore, the results presented for the three and nine months ended September 30, 2004 do not include results associated with Metrocall.

USA Mobility expects to achieve operating and other synergies through elimination of redundant overhead and duplicative network structures. Subsequent to the merger, the Company began an extensive review of all operating systems, the rationalization of the one-way and two-way messaging networks, and the composition of the sales force. The Company expects to continue its reviews through 2005 and beyond as it deconstructs networks and standardizes its systems. In this process, the Company expects to incur additional costs.

The following unaudited pro forma summary presents the consolidated results of operations as if the merger had occurred at the beginning of the period presented, after giving effect to certain adjustments, including depreciation and amortization of acquired assets and interest expense on merger-related debt. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what would have occurred had the merger been completed at the beginning of the period presented, or of results that may occur in the future.

	Nine Months Ended	
	September 30, 2004	September 30, 2005
	(Proforma)	
	(In thousands except per share amounts)	
Revenues	\$608,765	\$475,168
Net income (restated)	38,741	5,054
Basic net income per common share (restated)	1.44	0.19
Diluted net income per common share (restated)	1.42	0.18

USA MOBILITY, INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(c) *Business* — USA Mobility is a leading provider of wireless messaging in the United States. Currently, USA Mobility provides one-way and two-way messaging services. One-way messaging consists of numeric and alphanumeric messaging services. Numeric messaging services enable subscribers to receive messages that are composed entirely of numbers, such as a phone number, while alphanumeric messages may include numbers and letters, which enable subscribers to receive text messages. Two-way messaging services enable subscribers to send and receive messages to and from other wireless messaging devices, including pagers, personal digital assistants and personal computers. USA Mobility also offers voice mail, personalized greeting, message storage and retrieval and equipment loss and/or maintenance protection to both one-way and two-way messaging subscribers. These services are commonly referred to as wireless messaging and information services.

(d) *Risks and Other Important Factors* — Based on current and anticipated levels of operations, USA Mobility's management believes the Company's net cash provided by operating activities, together with cash on hand, should be adequate to meet its cash requirements for the foreseeable future.

In the event that net cash provided by operating activities and cash on hand are not sufficient to meet future cash requirements, USA Mobility may be required to reduce planned capital expenditures, sell assets or seek additional financing. USA Mobility can provide no assurance that reductions in planned capital expenditures or proceeds from asset sales would be sufficient to cover shortfalls in available cash or that additional financing would be available or, if available, offered on acceptable terms.

USA Mobility believes that future fluctuations in its revenue and operating results may occur due to many factors, particularly the decreased demand for its messaging services. If the rate of decline for the Company's messaging services exceeds its expectations, revenues may be negatively impacted, and such impact could be material. USA Mobility's plan to consolidate its networks may also negatively impact revenues as customers experience a reduction in, and possible disruptions of, service in certain areas. Under these circumstances, USA Mobility may be unable to adjust spending in a timely manner to compensate for any future revenue shortfall. It is possible that, due to these fluctuations, USA Mobility's revenue or operating results may not meet the expectations of investors, which could reduce the value of USA Mobility's common stock.

(e) *Goodwill and Other Intangible Assets* — Goodwill of \$151.6 million (as restated) at September 30, 2005 resulted from the purchase accounting related to the merger with Metrocall as previously discussed. Goodwill was reduced by \$2.7 million during the nine months ended September 30, 2005. This reduction reflects \$1.5 million of adjustments to the state and local tax contingencies identified at the merger date of Arch and Metrocall and \$1.5 million of adjustments to the deferred tax assets resulting from information obtained during the preparation of the Company's 2004 income tax returns. Additional changes to goodwill may occur during 2005 due to the Company's purchase price allocation being preliminary with respect to the state and local tax contingencies.

The Company's operations consists of one reporting unit to evaluate goodwill. Goodwill is not amortized, but is evaluated for impairment annually or when events or circumstances suggest a potential impairment may have occurred. The Company has selected the fourth quarter to perform its annual impairment test. Other intangible assets were recorded at fair value at the date of acquisition and amortized over periods generally ranging from one to five years. Aggregate amortization expense for intangible assets for the nine months ended September 30, 2004 and 2005 was zero and \$19.3 million, respectively.

USA MOBILITY, INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Amortizable intangible assets are comprised of the following at September 30, 2005 (dollars in thousands):

	Useful Life (in years)	Gross Carrying Amount	Accumulated Amortization	Net Balance
Purchased subscriber lists	5	\$ 68,593	\$ (24,401)	\$ 44,192
Purchased Federal Communications Commission ("FCC") licenses	5	3,526	(2,369)	1,157
Other	1	2,160	(1,878)	282
		74,279	(28,648)	45,631
Deferred financing costs	2	3,459	(3,459)	0
		<u>\$ 77,738</u>	<u>\$ (32,107)</u>	<u>\$ 45,631</u>

(f) *Long-term Debt* — On November 16, 2004, Metrocall and Arch as Borrowers, along with USA Mobility and its bank lenders, entered into a credit agreement (the "credit agreement") to borrow \$140.0 million. Under the credit agreement, the Company may designate all or any portion of the borrowings outstanding at either a floating base rate or a Eurodollar rate advance with an applicable margin of 1.50% for base rate advances and 2.50% for Eurodollar advances. The cash proceeds under the credit agreement were used by USA Mobility to fund a portion of the cash consideration paid to Metrocall shareholders in accordance with the merger agreement. The borrowings were secured by substantially all of the assets of USA Mobility. During the third quarter of 2005, the Company paid the remaining balance of \$26.5 million under the credit agreement in full satisfaction of its bank debt obligation.

(g) *Accounts Payable and Other Accrued Liabilities* — Accounts payable and other accrued liabilities consist of the following (dollars in thousands):

	December 31, 2004	September 30, 2005
Accounts payable	\$ 6,011	\$ 4,069
Accrued compensation and benefits (restated)	10,329	12,338
Accrued network costs	8,956	8,318
Accrued property and sales tax (restated)	30,097	32,984
Accrued severance and restructuring (restated)	16,241	7,150
Accrued other	14,844	13,096
Total accounts payable and other accrued liabilities	<u>\$ 86,478</u>	<u>\$ 77,955</u>

Accrued property and sales taxes are based on the Company's estimate of outstanding state and local taxes. This balance may be adjusted in the future as the Company settles with various taxing jurisdictions. A portion of this liability relates to contingencies identified at the merger of Arch and Metrocall and, accordingly, are considered preliminary in the purchase price allocation of the acquisition. As the Company obtains additional information to refine the estimate, including potential settlement discussions with taxing authorities, increases or decreases to the liability and goodwill could occur. The Company is required to complete its estimation process for these contingencies within one year of the acquisition.

(h) *Stockholders' Equity* — The authorized capital stock of the Company consists of 75 million shares of common stock and 25 million shares of preferred stock, par value \$0.0001 per share.

- *General* — At December 31, 2004 and September 30, 2005, there were 26,827,071 and 27,230,310 shares of common stock outstanding and no shares of preferred stock outstanding, respectively. In addition, at September 30, 2005, there were 269,139 shares of common stock reserved for issuance from time to time to satisfy general unsecured claims under the Arch plan of reorganization. For financial reporting purposes, the number of shares reserved for issuance under the Arch plan of reorganization have been included in the Company's reported outstanding share balance.

USA MOBILITY, INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In connection with and prior to the merger, the Company established the USA Mobility, Inc. Equity Incentive Plan (“Equity Plan”). Under the Equity Plan, the Company has the ability to issue up to 1,878,976 shares of its common stock to eligible employees and non-employee members of its Board of Directors in the form of stock options, restricted stock, stock grants or units. Restricted shares awarded under the plan entitle the shareholder to all rights of common stock ownership except that the shares may not be sold, transferred, exchanged, or otherwise disposed of during the restriction period, which will be determined by the Compensation Committee of the Board of Directors of the Company.

On June 7, 2005, the Company awarded 103,937 shares of restricted stock to certain eligible employees. Effective November 2, 2005, the Board of Directors amended the vesting schedule for the restricted stock. The vesting date for the initial two-thirds of the restricted shares for each eligible employee is January 1, 2007, and the remainder will vest ratably over the course of the next year, such that as of January 1, 2008, 100% of the restricted stock awards would be fully vested. The Company used the fair-value based method of accounting for the award and will ratably amortize the \$2.8 million to expense over the vesting period. The change in vesting necessitates accounting modifications that will occur by the end of 2005.

In lieu of cash payments for directors’ fees earned since the date of the merger on November 16, 2004, through June 30, 2005, two directors elected to receive a total of 2,466 unrestricted shares of the Company’s common stock during June and August 2005 based upon the fair market value of a share of common stock at the date of issuance and an additional 1,018 shares will be issued for fees earned through September 30, 2005.

- *Earnings per Share* — Basic earnings per share is computed on the basis of the weighted average common shares outstanding. Diluted earnings per share is computed on the basis of the weighted average common shares outstanding plus the effect of outstanding stock options and restricted stock using the “treasury stock” method. The components of basic and diluted earnings per share were as follows (in thousands, except share and per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2005	2004	2005
Net income (restated)	\$ 2,404	\$ 8,727	\$ 13,482	\$ 5,054
Weighted average shares of common stock outstanding	19,914,099	27,365,701	19,967,708	27,234,214
Dilutive effect of:				
Options to purchase common stock and restricted stock	127,456	100,289	124,093	174,551
Weighted average shares of common stock and common stock equivalents	20,041,555	27,465,990	20,091,801	27,408,765
Earnings per share (restated):				
Basic	\$ 0.12	\$ 0.32	\$ 0.68	\$ 0.19
Diluted	\$ 0.12	\$ 0.32	\$ 0.67	\$ 0.18

(i) *Revenue Recognition* — Revenue consists primarily of monthly service and rental fees charged to customers on a monthly, quarterly, semi-annual or annual basis. Revenue also includes the sale of messaging devices directly to customers and other companies that resell our services. In accordance with the provisions of Emerging Issues Task Force Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*, (“EITF No. 00-21”), the Company evaluated these revenue arrangements and determined that two separate units of accounting exist, messaging service revenue and product sale revenue. Accordingly, the Company recognizes

USA MOBILITY, INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

messaging service revenue over the period the service is performed and revenue from product sales is recognized at the time of shipment. The Company recognizes revenue when four basic criteria have been met: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services rendered, (3) the fee is fixed or determinable and (4) collectibility is reasonably assured. Amounts billed but not meeting these recognition criteria are deferred until all four criteria have been met. The Company has a variety of billing arrangements with its customers, resulting in deferred revenue in advance billing and accounts receivable for billing in-arrears arrangements.

Our customers may subscribe to one-way or two-way messaging services for a monthly service fee which is generally based upon the type of service provided, the geographic area covered, the number of devices provided to the customer and the period of commitment. Voice mail, personalized greeting and equipment loss and/or maintenance protection may be added to either one-way or two-way messaging services, as applicable, for an additional monthly fee. Equipment loss protection allows subscribers who lease devices to limit their cost of replacement upon loss or destruction of a messaging device. Maintenance services are offered to subscribers who own their device.

In June 2005, the Company announced an alliance with Advanced Metering Data Systems, LLC (“AMDS”) and Sensus Metering Systems to provide meter monitoring services over a narrow-band PCS network. The Company agreed to sell one of its FCC licenses and to provide tower space and other custom network services to AMDS. Proceeds from the sale of its FCC license would include a note receivable of \$1.5 million and a royalty of 1% to 3% of net monitoring revenue derived from the use of the FCC license. On August 29, 2005, the FCC approved the license sale. Closing was scheduled to occur within ten business days of that date. Both parties mutually agreed to postpone the closing of the sale to October 12, 2005 owing to disruptions to the operations of AMDS by Hurricane Katrina. Accordingly, the Company has not recorded any amounts related to this transaction and expects to recognize proceeds as received into Other Income. The Company ceased amortization of the applicable FCC license on the date of FCC approval, and transferred the outstanding balance of \$0.2 million to Assets Held for Sale included as part of Other Current Assets.

(j) *Stock Based Compensation* — Compensation expense associated with options and restricted stock was recognized in accordance with the fair value provisions of SFAS No. 123, *Accounting for Stock Based Compensation* (“SFAS No. 123”), over the instruments’ vesting period. Pursuant to SEC Staff Accounting Bulletin 107, *Share-Based Payment*, (“SAB 107”), the following table reflects the classification of \$6.0 million and \$2.3 million in stock based compensation for the nine months ended September 30, 2004 and 2005, respectively (dollars in thousands).

	Nine Months Ended September 30,	
	2004	2005
Service, rental and maintenance expense	\$ 475	\$ 192
Selling and marketing expense	27	138
General and administrative expense	5,538	1,923
Total stock based compensation	<u>\$6,040</u>	<u>\$2,253</u>

USA MOBILITY, INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(k) *Severance and Restructuring* — At September 30, 2005, the balance of the liability (as restated) was as follows (dollars in thousands):

	Balance at December 31, 2004	Charges in 2005	Reclassifications	Cash Paid	Remaining Liability at September 30, 2005
Lease obligation costs	\$ 3,463	\$ 824	\$ —	\$ (4,287)	\$ —
Severance costs (restated)	12,778	10,772	1,553	(17,953)	7,150
Litigation settlement costs	—	4,300	—	(4,300)	—
Total	<u>\$ 16,241</u>	<u>\$ 15,896</u>	<u>\$ 1,553</u>	<u>\$(26,540)</u>	<u>\$ 7,150</u>

The remaining lease obligation and severance is expected to be paid by the end of the third quarter of 2006.

(l) *Settlement Agreements* — During the three months ended March 31, 2005, the Company reached a settlement agreement with a vendor for roaming credits held by USA Mobility and recorded a \$1.5 million reduction to service, rental and maintenance expenses for this cash consideration. The Company will also use additional benefits of \$0.5 million over the next 58 months as USA Mobility customers incur roaming charges on the vendor's network.

On November 10, 2004, three former Arch senior executives (the "Former Executives") filed a Notice of Claim before the JAMS/Endispute arbitration forum in Boston, Massachusetts asserting they were terminated from their employment by Arch pursuant to a "change in control" as defined in their respective executive employment agreements (the "Claims"). On May 9, 2005, the Former Executives agreed to dismiss the Claims with prejudice against all parties in exchange for a settlement payment of \$4.3 million. The Company recorded this settlement as an increase to severance expenses for the nine months ended September 30, 2005.

(m) *Income Taxes* — USA Mobility accounts for income taxes under the liability method of SFAS No. 109, *Accounting for Income Taxes*. Deferred income tax assets and liabilities are determined based on the difference between the financial statement bases and the income tax provision bases of assets and liabilities, given the provisions of enacted laws. In the event the Company obtains evidence the deferred tax assets will not be realized, the Company would provide a valuation allowance against net deferred tax assets.

USA Mobility evaluates the recoverability of its deferred income tax assets on an ongoing basis. The assessment is required to determine whether based on all available evidence, it is more likely than not that all USA Mobility's net deferred income tax assets will be realized in future periods. Management continues to believe no valuation allowance is required.

The anticipated effective tax rate is expected to continue to differ from the statutory federal tax rate of 35% , primarily due to the effect of state income taxes.

(n) *Related Party Transactions* — As of November 16, 2004, two members of the Company's board of directors also serve as directors for entities from which the Company leases transmission tower sites. During the nine months ended September 30, 2005, the Company paid \$18.6 million and \$2.5 million, respectively, to these landlords for rent expenses. Each director has recused himself from any discussions or decisions made on matters relating to the respective vendor for which he serves as a director.

(o) *Segment Reporting* — USA Mobility believes it currently has one operating segment.

(p) *New Accounting Pronouncements* — In May 2005, the Financial Accounting Standards Board ("FASB") issued SFAS No. 154, *Accounting Changes and Error Corrections*, ("SFAS No. 154"), that supercedes APB Opinion No. 20 and SFAS No. 3. This statement requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle, due to accounting changes and corrections of errors made

USA MOBILITY, INC.

UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

in fiscal years beginning after December 15, 2005. Management does not expect SFAS No. 154 to materially affect the reported operations, cash flows, or financial position of the Company.

In December 2004 the FASB issued a revision of SFAS No. 123, *Accounting for Stock Based Compensation* (“SFAS No. 123R”). SFAS No. 123R supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. SFAS No. 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity’s equity instruments or that may be settled by the issuance of those equity instruments. SFAS No. 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R does not change the accounting guidance for share-based payment transactions with parties other than employees provided in SFAS No. 123 as originally issued and EITF Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*.

The SEC adopted a rule that defers the effective date of SFAS No. 123R until the beginning of the first fiscal year beginning after June 15, 2005. The Company has elected to postpone adoption of SFAS No. 123R until 2006. Management does not expect SFAS No. 123R to materially affect the reported results of operations, cash flows or financial position of the Company.

In March 2005, the FASB issued Financial Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (“FIN 47”). FIN 47 clarifies the application of certain aspects of SFAS No. 143, *Asset Retirement Obligations*. Management does not expect the adoption of FIN 47 to materially affect the reported results of operations, cash flows or financial position of the Company.

(q) *Commitments and Contingencies* — USA Mobility was named as a defendant, along with Arch, Metrocall and Metrocall’s former board of directors, in two lawsuits filed in the Court of Chancery of the State of Delaware, New Castle County, on June 29, 2004 and July 28, 2004. The Company and the other defendants entered into a settlement agreement with the plaintiffs prior to the merger which was approved by the court on May 18, 2005 and the case was dismissed. As noted in note (l), *Settlement Agreements*, on May 9, 2005, three former executives of Arch agreed to dismiss all claims against Arch and its subsidiaries in exchange for a settlement payment of \$4.3 million.

In August 2005, USA Mobility, through a subsidiary, entered into a Master Antenna Site Lease agreement (the “Master Leases”) with a subsidiary of Global Signal, Inc. (“Global Signal”) under which USA Mobility and/or its affiliates may lease space for their equipment on communications sites currently and subsequently owned, managed or leased by Global Signal. The new Master Leases were effective as of July 1, 2005 and expire on December 31, 2008. Under the Master Leases, USA Mobility may locate up to a specified maximum number of transmitters on Global Signal’s sites for a fixed monthly fee. The fixed monthly fee decreases periodically over time from approximately \$1.6 million in July 2005 to approximately \$1.0 million per month in 2008. USA Mobility expects to consolidate up to 50% of its transmitters onto Global Signal sites by the end of 2008.

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

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

Restatement

We have restated our 2004 financial statements and 2004 and 2005 interim financial statements and other information, as discussed in the Restatement section of Part I and further described in Note 1 of the Unaudited Notes to Condensed Consolidated Financial Statements. In this Quarterly Report on Form 10-Q/A, we are reporting net income of \$2.3 million and \$8.7 million for the three months ended September 30, 2004 and 2005, and net income of \$15.1 million and \$5.1 million for nine months ended September 30, 2004 and 2005, respectively, compared to net income of \$6.7 million and \$0.4 million for three months ended September 2004 and 2005, and net income of \$14.7 million and a net loss of \$1.0 million for nine months ended September 2004 and 2005 that we reported in the previously filed Form 10-Q. In connection with the restatement described herein, the Company has concluded that, as of December 31, 2004, the restatement was a result of material weaknesses in the Company's internal control over financial reporting. All amounts contained within "Management's Discussion and Analysis of Financial Conditions and Results of Operations" have been corrected to reflect the impact of the restatement. See Note 1 to the Notes to the Consolidated Financial Statements in the 2004 Annual Report on Form 10-K/A.

Forward-Looking Statements

This quarterly report contains forward-looking statements and information relating to USA Mobility, Inc. and its subsidiaries ("USA Mobility" or the "Company") that are based on management's beliefs as well as assumptions made by and information currently available to management. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "anticipate," "believe," "estimate," "expect," "intend" and similar expressions, as they relate to USA Mobility or its management are forward-looking statements. Although these statements are based upon assumptions management considers reasonable, they are subject to certain risks, uncertainties and assumptions including, but not limited to, those factors set forth within this "Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A")." Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described herein as anticipated, believed, estimated, expected or intended. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their respective dates. We undertake no obligation to update or revise any forward-looking statements. All subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the discussion under the "Risk Factors Affecting Future Operating Results" section of the MD&A.

Overview

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes and "Risk Factors Affecting Future Operating Results," which describe key risks associated with our operations and industry, and the following subsections of the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2004: "Overview," "Results of Operations," "Liquidity and Capital Resources", "Inflation", and "Application of Critical Accounting Policies."

USA Mobility is a holding company that was formed to effect the merger of Arch Wireless, Inc. and subsidiaries ("Arch") and Metrocall Holdings, Inc. and subsidiaries ("Metrocall") which occurred on November 16, 2004. Prior to the merger, USA Mobility had conducted no operations other than those incidental to its formation. For financial reporting purposes, Arch was deemed to be the accounting acquirer of Metrocall. The historical information for USA Mobility includes the historical financial information of Arch for 2004 and the acquired operations of Metrocall from November 16, 2004. Accordingly, the results of operations reflect increases in revenues and costs due to the inclusion of Metrocall during the three and nine month periods ended September 30, 2005 as compared to the three and nine month periods ended September 30, 2004, which included the results of Arch only.

Integration

We continue to believe that the combination of Arch and Metrocall provides us with the potential to generate stronger financial and operating results than either company could have achieved separately, by reducing overall costs while the Company's revenue continues to decline sequentially. During the third quarter of 2005, our integration and cost reduction efforts continue to focus on:

Technical Infrastructure and Network Operations — We continued decommissioning and deconstructing one of our two-way networks. That process is expected to be completed by late November 2005. We are also focused on rationalizing our one-way networks. This consolidation and rationalization will be an ongoing process as we attempt to match our network capacity to the requirements of our customers. These activities include reducing the costs of lease payments for transmitter locations and telecommunications related expenses associated with our networks.

Selling and Marketing — We continued the process to eliminate redundant and unnecessary sales offices to match the staff reductions that were taken in the fourth quarter of 2004 and which have occurred to date.

Billing System Consolidation — The conversion of the Metrocall stand alone billing system into the Arch billing system was completed during July 2005.

Inventory Fulfillment — We consolidated our remaining three distribution centers to one distribution center by the end of the third quarter 2005.

Back-office Operations — We are consolidating our customer service operations, from five to two centers by the end of 2006. Other administrative and support functions such as accounting, finance, human resources, credit and collections, information technology and other overhead functions are also being consolidated throughout 2005.

Since the merger on November 16, 2004, the Company has reduced its employee base from 2,844 around the time of the merger to 1,731 at September 30, 2005. While these staff reductions have resulted in significant severance expenses, the Company's ongoing cost of payroll and related costs will be reduced.

Sales and Marketing

We market and distribute our services through a direct sales force and a small indirect sales force.

Direct. Our direct sales force rents or sells products and messaging services directly to customers ranging from small and medium-sized businesses to Fortune 1000 companies, health care and related businesses and government agencies. We intend to continue to market to commercial enterprises utilizing our direct sales force as these commercial enterprises have typically disconnected service at a lower rate than individual consumers. As of September 30, 2005, our sales personnel were located in approximately 109 offices in 35 states throughout the United States. In addition, we maintain several corporate sales groups focused on national business accounts; federal government accounts; advanced wireless services; systems sales applications; telemetry and other product offerings.

Indirect. Within our indirect channel we contract with and invoice an intermediary for airtime services. The intermediary or "reseller" in turn markets, sells and provides customer service to the end-user. There is no contractual relationship that exists between us and the end subscriber. Therefore, operating costs per unit to provide these services are lower than those required in the direct distribution channel. Indirect units in service typically have lower average monthly revenue per unit than direct units in service. The rate at which subscribers disconnect service in our indirect distribution channel has been higher than the rate experienced with our direct customers and we expect this to continue in the foreseeable future.

The following table sets forth units in service associated with our channels of distribution:

	As of September 30, 2004(a)		As of June 30, 2005 (b), (c)		As of September 30, 2005(b)	
	Units	%	Units	%	Units	%
	(Units in thousands)					
Direct	3,247	86%	4,496	84%	4,342	85%
Indirect	525	14%	852	16%	774	15%
Total	<u>3,772</u>	<u>100%</u>	<u>5,348</u>	<u>100%</u>	<u>5,116</u>	<u>100%</u>

- (a) Includes units in service of Arch only.
(b) Includes units in service of Arch and Metrocall.
(c) Includes a 238,000 reduction of units in service due to the conversion of the Metrocall billing system to the Arch billing system.

During our billing system conversion, which was completed in early July 2005, we became aware of errors in the Metrocall units in service counts and differences in the definition of units in service between Metrocall and Arch. As a result, as of June 30, 2005, we reduced our units in service by 238,000 units to correct the errors and to conform to the Arch billing system standard unit definition. There was no impact on revenue.

Our customers may subscribe to one-way or two-way messaging services for a monthly service fee which is generally based upon the type of service provided, the geographic area covered, the number of devices provided to the customer and the period of commitment. Voice mail, personalized greeting and equipment loss and/or maintenance protection may be added to either one or two-way messaging services, as applicable, for an additional monthly fee. Equipment loss protection allows subscribers who lease devices to limit their cost of replacement upon loss or destruction of a messaging device. Maintenance services are offered to subscribers who own their device.

A subscriber to one-way messaging services may select coverage on a local, regional or nationwide basis to best meet their messaging needs. Local coverage generally allows the subscriber to receive messages within a small geographic area, such as a city. Regional coverage allows a subscriber to receive messages in a larger area, which may include a large portion of a state or sometimes groups of states. Nationwide coverage allows a subscriber to receive messages in major markets throughout the United States. The monthly fee generally increases with coverage area. Two-way messaging is generally offered on a nationwide basis.

The following table summarizes the breakdown of our one-way and two-way units in service at specified dates:

	As of September 30, 2004(a)		As of June 30, 2005(b), (c)		As of September 30, 2005(b)	
	Units	%	Units	%	Units	%
	(Units in thousands)					
One-way messaging	3,507	93%	4,876	91%	4,662	91%
Two-way messaging	265	7%	472	9%	454	9%
Total	<u>3,772</u>	<u>100%</u>	<u>5,348</u>	<u>100%</u>	<u>5,116</u>	<u>100%</u>

- (a) Includes one-way and two-way messaging units in service of Arch.
(b) Includes one-way and two-way messaging units of Arch and Metrocall.
(c) Includes a 238,000 reduction of units in service due to the conversion of the Metrocall billing system to the Arch billing system.

We provide wireless messaging services to subscribers for a monthly fee, as described above. In addition, subscribers either lease a messaging device from us for an additional fixed monthly fee or they own a device, having purchased it either from the Company or from another vendor. We also sell devices to resellers who lease or resell devices to their subscribers and then sell messaging services utilizing our networks.

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The following table summarizes the number of units in service owned by us, our subscribers and our indirect customers at specified dates:

	As of September 30, 2004(a)		As of June 30, 2005(b), (c)		As of September 30, 2005(b)	
	Units	%	Units	%	Units	%
	(Units in thousands)					
Owned and leased	2,974	79%	3,983	74%	3,874	76%
Owned by subscribers	274	7%	513	10%	468	9%
Owned by indirect customers or their subscribers	524	14%	852	16%	774	15%
Total	<u>3,772</u>	<u>100%</u>	<u>5,348</u>	<u>100%</u>	<u>5,116</u>	<u>100%</u>

(a) Includes units in service of Arch.

(b) Includes units of Arch and Metrocall.

(c) Includes a 238,000 reduction of units in service due to the conversion of the Metrocall billing system to the Arch billing system.

We derive the majority of our revenues from fixed monthly or other periodic fees charged to subscribers for wireless messaging services. Such fees are not generally dependent on usage. As long as a subscriber maintains service, operating results benefit from recurring payment of these fees. Revenues are generally driven by the number of units in service and the monthly charge per unit. The number of units in service changes based on subscribers added, referred to as gross placements, less subscriber cancellations, or disconnects. The net of gross placements and disconnects is commonly referred to as net gains or losses of units in service. The absolute number of gross placements as well as the number of gross placements relative to average units in service in a period, referred to as the gross placement rate, is monitored on a monthly basis. Disconnects are also monitored on a monthly basis. The ratio of units disconnected in a period to beginning units in service for the same period, called the disconnect rate, is an indicator of our success retaining subscribers which is important in order to maintain recurring revenues and to control operating expenses.

The following table sets forth our gross placements and disconnects for the periods stated.

	Three Months Ended					
	September 30, 2004(a)		June 30, 2005(b), (c)		September 30, 2005(b)	
	Gross Placements	Disconnects	Gross Placements	Disconnects	Gross Placements	Disconnects
	(Units in thousands)					
Direct	122	255	165	459	142	296
Indirect	<u>29</u>	<u>93</u>	<u>99</u>	<u>315</u>	<u>29</u>	<u>107</u>
Total	<u>151</u>	<u>348</u>	<u>264</u>	<u>774</u>	<u>171</u>	<u>403</u>

(a) Includes gross placements and disconnects of Arch only.

(b) Includes gross placements and disconnects of Arch and Metrocall.

(c) Includes a 238,000 reduction of units in service due to the conversion of the Metrocall billing system to the Arch billing system.

The demand for one-way and two-way messaging services declined during the nine months ended September 30, 2005, and we believe demand will continue to decline for the foreseeable future in line with recent trends.

The other factor that contributes to revenue, in addition to the number of units in service, is the monthly charge per unit. As previously discussed, the monthly charge is dependent on the subscriber's service, extent of geographic coverage, whether the subscriber leases or owns the messaging device and the number of units the customer has on his or her account. The ratio of revenues for a period to the average units in service for the same period, commonly referred to as average revenue per unit ("ARPU"), is a key revenue measurement as it indicates whether monthly

charges for similar services and distribution channels are increasing or decreasing. ARPU by distribution channel and messaging service are monitored regularly. The following table sets forth our ARPU by distribution channel for the periods stated.

	Three Months Ended		
	September 30, 2004(a)	June 30, 2005(b), (c)	September 30, 2005(b)
Direct	\$9.93	\$9.89	\$9.81
Indirect	\$3.70	\$4.58	\$4.81
Consolidated	\$9.04	\$9.02	\$9.04

- (a) Includes average revenue per unit for Arch only.
- (b) Includes average revenue per unit for Arch and Metrocall.
- (c) Includes a 238,000 reduction of units in service due to the conversion of the Metrocall billing system to the Arch billing system at the beginning of the period in calculating average revenue per unit.

While ARPU for similar services and distribution channels is indicative of changes in monthly charges and the revenue rate that we add new subscribers, this measurement on a consolidated basis is affected by several factors, most notably the mix of units in service. Gross revenues have increased year over year due to the Metrocall merger, but we expect future sequential quarterly revenues to decline. The change in our consolidated average revenue per unit for the quarter ended September 30, 2005 from the quarters ended September 30, 2004 and June 30, 2005, was due primarily to the change in mix in customers and considered the 238,000 unit adjustment referred to above. The change in ARPU in our direct distribution channel is the most significant indicator of rate-related changes in our revenues. We expect ARPU for our direct units in service will decline in future periods in line with recent trends.

Our revenues were \$109.4 million and \$152.0 million for the three months ended September 30, 2004 and 2005, respectively, and \$348.9 and \$475.2 million for the nine months ended September 30, 2004 and 2005, respectively. The 2004 revenues include historical information for Arch only. Certain of our operating expenses are especially important to overall expense control; these operating expenses are categorized as follows:

- *Service, rental and maintenance.* These are expenses associated with the operation of our networks and the provision of messaging services and consist largely of telecommunications charges to deliver messages over our networks, lease payments for transmitter locations and payroll expenses for our engineering and pager repair functions.
- *Selling and marketing.* These are expenses associated with our direct and indirect sales forces and marketing expenses in support of the sales force. This classification consists primarily of salaries, commissions and other payroll related expenses.
- *General and administrative.* These are expenses associated with customer service, inventory management, billing, collections, bad debts and other administrative functions.

We review the percentages of these operating expenses to revenues on a regular basis. Even though the operating expenses are classified as described above, expense controls are also performed by expense category. For the quarter ended September 30, 2005, we incurred approximately 74% of the expenses referred to above in three expense categories: payroll and related expenses, lease payments for transmitter locations and telecommunications expenses.

Payroll and related expenses include wages, commissions, incentives, employee benefits and related taxes. We review the number of employees in major functional categories such as direct sales, engineering and technical staff, customer service, collections and inventory on a monthly basis. We also review the design and physical locations of functional groups to continuously improve efficiency, to simplify organizational structures and to minimize the number of physical locations.

Lease payments for transmitter locations are largely dependent on our messaging networks. We operate local, regional and nationwide one-way and two-way messaging networks. These networks each require locations on which to place transmitters, receivers and antennae. Generally, lease payments are incurred for each transmitter

location. Therefore, lease payments for transmitter locations are highly dependent on the number of transmitters, which in turn is dependent on the number of networks. In addition, these expenses generally do not vary directly with the number of subscribers or units in service, which is detrimental to the Company's operating margin as revenues decline. In order to reduce this expense, USA Mobility has an active program to consolidate the number of networks and thus transmitter locations, which the Company refers to as network rationalization.

Telecommunications expenses are incurred to interconnect our messaging networks and to provide telephone numbers for customer use, points of contact for customer service and connectivity among our offices. These expenses are dependent on the number of units in service and the number of office and network locations we maintain. The dependence on units in service is related to the number of telephone numbers provided to customers and the number of telephone calls made to our call centers, though this is not always a direct dependency. For example, the number or duration of telephone calls to our call centers may vary from period to period based on factors other than the number of units in service, which could cause telecommunications expense to vary regardless of the number of units in service. In addition, certain phone numbers we provide to our customers may have a usage component based on the number and duration of calls to the subscriber's messaging device. Telecommunications expenses do not necessarily vary in direct relationship to units in service. Therefore, based on the factors discussed above, efforts are underway to review and reduce telephone circuit inventories and capacities and to reduce the number of transmitter and office locations at which we operate.

USA Mobility did experience limited damage to transmission equipment located in the Gulf of Mexico region of the United States from Hurricanes Katrina and Rita in the third quarter of 2005. Expenses related to storm-related recovery efforts have been included in service, rental and maintenance expenses, and were immaterial for the third quarter of 2005. In addition, the Company recorded losses of \$208,000 to reflect the loss of damaged assets. To date, the impact to revenues or bad debt expense has been immaterial. The Company has an insurance policy that affords recovery for operational expenses, asset losses and business interruption, and is working to assemble its claims; at this time, however, the Company cannot estimate the amount and timing of insurance recoveries, if any.

The total of our cost of products sold, service, rental and maintenance, selling and marketing, and general and administrative expenses was \$72.8 million and \$109.2 million for the three months ended September 30, 2004 and 2005, respectively, and \$228.4 million and \$340.4 million for the nine months ended September 30, 2004 and 2005, respectively. As discussed previously the Company expects revenue from one-way and two-way messaging services to continue to decline for the foreseeable future in line with recent trends. Additionally, the Company believes that the rate of revenue decline will likely outpace the Company's ability to reduce costs, therefore the Company expects its margins to decline for the foreseeable future. There can be no assurance that in the face of declining revenue the Company can remain profitable, or generate positive cash flow from operating activities.

Results of Operations

As previously discussed, Arch and Metrocall merged on November 16, 2004. The results of operations and cash flows discussed below for 2004 include the operating results and cash flows of Arch only for the three and nine months ended September 30, 2004, while the 2005 period includes the operating results of Arch and Metrocall. Accordingly, the apparent growth in operations is due to the merger.

Comparison of the Results of Operations for the Three Months Ended September 30, 2004 and 2005

	Three Months Ended September 30,				Change Between 2004 and 2005	
	2004		2005			
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
(Dollars in thousands)						
Revenues:						
Service, rental and maintenance	\$104,785	95.8%	\$145,014	95.4%	\$40,229	38.4%
Product sales	4,632	4.2	6,940	4.6	2,308	49.8
	<u>\$109,417</u>	<u>100%</u>	<u>\$151,954</u>	<u>100%</u>	<u>\$42,537</u>	
Selected operating expenses:						
Cost of products sold	691	0.6	945	0.6	254	36.8
Service, rental and maintenance (restated)	36,653	33.5	53,739	35.4	17,086	46.6
Selling and marketing	7,862	7.2	11,276	7.4	3,414	43.4
General and administrative (restated)	27,615	25.2	43,261	28.5	15,645	56.7
	<u>\$ 72,821</u>	<u>66.6%</u>	<u>\$109,221</u>	<u>71.9%</u>	<u>\$36,399</u>	

Revenues

Service, rental and maintenance revenues consist primarily of recurring fees associated with the provision of messaging services and rental of leased units. Product sales consist largely of revenues associated with the sale of devices and charges for leased devices that are not returned. The increase in revenues in each revenue type is the result of including revenues of Metrocall during 2005 as compared to Arch only during 2004. The combined Company has experienced, and expects to continue to experience, revenue declines for the foreseeable future.

	Three Months Ended September 30,	
	2004	2005
	(Dollars in thousands)	
Service, rental and maintenance revenues:		
Paging:		
Direct:		
One-way messaging	\$ 78,822	\$102,884
Two-way messaging	19,562	27,227
	<u>\$ 98,384</u>	<u>\$130,111</u>
Indirect:		
One-way messaging	\$ 5,713	\$ 9,461
Two-way messaging	432	2,260
	<u>\$ 6,145</u>	<u>\$ 11,721</u>
Total Paging:		
One-way messaging	\$ 84,535	\$112,345
Two-way messaging	19,994	29,487
	<u>\$104,529</u>	<u>\$141,832</u>
Non-Paging revenue	256	3,182
Total service, rental and maintenance revenues	<u>\$104,785</u>	<u>\$145,014</u>

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The table below sets forth units in service and service revenues, the changes in each between the three months ended September 30, 2004 and 2005 and the change in revenue associated with differences in the number of units in service and the ARPU.

	Units in Service			Revenues			Change Due to:	
	As of September 30,			Three Months Ended September 30,				
	2004	2005	Change	2004(a)	2005(a)	Change	ARPU	Units
	(Units in thousands)			(Dollars in thousands)				
One-way messaging	3,507	4,662	1,155	\$ 84,535	\$112,345	\$27,810	\$ 449	\$27,361
Two-way messaging	265	454	189	19,994	29,487	9,493	(5,122)	14,615
Total	3,772	5,116	1,344	\$104,529	\$141,832	\$37,303	\$(4,673)	\$41,976

(a) Amounts shown exclude non-paging and product sales revenues.

As previously discussed, demand for messaging services has declined over the past several years and we anticipate that it may continue to decline for the foreseeable future in line with recent trends, which would result in reductions in service revenue due to the lower number of subscribers and related units in service.

Operating Expenses

Cost of Products Sold. Cost of products sold consists primarily of the cost basis of devices sold to or lost by our customers. The increase for the three months ended September 30, 2005 was due primarily to an increase in the number of device transactions due to the Metrocall merger.

Service, Rental and Maintenance. Service, rental and maintenance expenses consists primarily of the following significant items:

	Three Months Ended September 30,				Change Between	
	2004		2005		2004 and 2005	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(Dollars in thousands)					
Lease payments for transmitter locations	\$19,742	18.0%	\$30,347	20.0%	\$10,605	53.7%
Telecommunications related expenses	6,588	6.0	10,585	7.0	3,997	60.7
Payroll and related expenses	6,043	5.5	7,488	4.9	1,445	23.9
Other (restated)	4,280	3.9	5,319	3.5	1,039	24.3
Total	\$36,653	33.5%	\$53,739	35.4%	\$17,086	46.6%

As illustrated in the table above, service, rental and maintenance expenses increased \$17.1 million or 46.6% from 2004. The percentage of these costs to revenues also increased, primarily due to the acquisition of the Metrocall one-way and two-way networks that resulted in increased lease and telecommunications-related expenses.

Following is a discussion of each significant item listed above:

- **Lease payments for transmitter locations** — The increase in lease payments for transmitter locations consists of an increase of \$10.6 million primarily due to the Metrocall one-way and two-way networks. As discussed earlier, we have begun to deconstruct one of our two-way networks and to rationalize our one-way networks. However, lease payments are subject to underlying obligations contained in each lease agreement, some of which do not allow immediate savings when our equipment is removed. Further, leases may consist of payments for multiple sets of transmitters, antenna structures or network infrastructures on a particular site. In some cases, we remove only a portion of the equipment to which the lease payment relates. Under these circumstances, reduction of future rent payments is often subject to negotiation and our success is dependent on many factors, including the number of other sites we lease from the lessor, the amount and location of equipment remaining at the site and the remaining term of the lease. Therefore, lease payments for transmitter locations are generally fixed in the short term, and as a result, to date, we have not been able to

reduce these payments at the same rate as the rate of decline in units in service and revenues, resulting in an increase in these expenses as a percentage of revenues.

- *Telecommunications related expenses* — The increase in telecommunications expenses reflected an increase of \$4.0 million resulting from the Metrocall merger. We have also begun the process to reduce these costs as we consolidate and rationalize our one-way and two-way networks. Reductions in these expenses should occur as our networks are consolidated throughout 2005 and 2006.
- *Payroll and related expenses* — Payroll consists largely of field technicians and their managers. This functional work group does not vary as closely to direct units in service as other work groups since these individuals are a function of the number of networks we operate rather than the number of units in service on our networks. Payroll for this category increased \$1.4 million, primarily due to an increase in employees resulting from the Metrocall merger.
- *Other* — Other includes a decrease of \$0.2 million in 2004 and \$0.5 million in 2005 due to a gain on deconstructing transmitters at a cost less than the estimated prior value of the related asset retirement obligation liability.

Selling and Marketing. Selling and marketing expenses consist primarily of payroll and related expenses. Selling and marketing payroll and related expenses increased \$3.4 million or 43.4% over 2004. This increase was due primarily to an increase in the number of sales representatives and sales management which resulted from the Metrocall merger.

General and Administrative. General and administrative expenses consist of the following significant items:

	Three Months Ended September 30,				Change Between 2004 and 2005	
	2004		2005			
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
Payroll and related expenses	\$12,182	11.1%	\$14,796	9.7%	\$ 2,614	21.5%
Bad debt	1,138	1.0	2,440	1.6	1,302	114.4
Facility expenses	3,372	3.1	5,160	3.4	1,788	53.0
Telecommunications	1,610	1.5	2,495	1.6	885	55.0
Outside services	2,978	2.7	5,391	3.5	2,413	81.0
Taxes and permits (restated)	2,163	2.0	6,169	4.1	4,006	185.2
Other	4,172	3.8	6,810	4.5	2,638	63.2
Total	\$27,615	25.2%	\$43,261	28.5%	\$15,646	56.7%

As illustrated in the table above, general and administrative expenses increased \$15.6 million from the three-month period ended September 30, 2004 due to the inclusion of Metrocall operations. The percentages of these expenses to revenue also increased, primarily due to the following:

- *Payroll and related expenses* — Payroll and related expenses include employees in customer service, inventory, collections, finance and other back office functions as well as executive management. We anticipate continued staffing reductions over the next quarter.
- *Bad debt* — The increase in bad debt expenses reflected an increase of \$1.3 million due to higher levels of overall accounts receivable of the combined operations.
- *Telecommunications* — The increase in telecommunications expense reflects the inclusion of Metrocall operations.
- *Outside Services* — Outside services consists primarily of costs associated with printing and mailing invoices, outsourced customer service, temporary help and various professional fees. The increase in 2005 was due primarily to higher temporary help and professional fees due to integration related activities. The

quarter period also included a benefit of \$1.5 million during the third quarter of 2005 for the reimbursement of legal fees under an insurance policy.

- *Taxes and Permits* — Taxes and permits consist primarily of property, franchise and gross receipts taxes. The increase in taxes and permits consists primarily of an increase resulting from the inclusion of Metrocall operations. The increase in taxes and permits expense as a percentage of revenue was due primarily to gross receipts taxes enacted in several jurisdictions in 2004.
- *Other expenses* — Other expenses consist primarily of postage and express mail costs associated with the shipping and receipt of messaging devices of \$1.5 million, repairs and maintenance associated with computer hardware and software of \$1.4 million, insurance of \$1.2 million and other expenses of \$2.7 million, which increased primarily due to the merger with Metrocall.

Depreciation, Amortization and Accretion. Depreciation, amortization and accretion expenses increased to \$28.9 million (restated) for the three month period ended September 30, 2005 from \$21.9 million (restated) for the same period in 2004. This increase was due primarily to depreciation and amortization expense of the tangible and intangible assets acquired from Metrocall, of \$9.6 million offset by \$2.8 million reduction in depreciation for assets fully depreciated. The remaining increase of \$0.2 million resulted from additional accretion expense on asset retirement obligation liabilities. Depreciation expense for the three months ended September 30, 2005, also includes \$0.2 million for assets damaged and lost due to Hurricanes Katrina and Rita.

Stock Based Compensation. Stock based compensation consists primarily of amortization of compensation expense associated with restricted common stock and options issued to certain members of management. USA Mobility uses the fair-value based method of accounting for stock based compensation. Stock based compensation decreased to \$0.3 million for the three month period ended September 30, 2005 from \$1.9 million for the same period in 2004. The change is attributable to the outstanding options vested in May 2005, offset by the compensation expense of the grant of 103,937 shares of restricted common stock to eligible employees on June 7, 2005.

Severance and Restructuring. Severance decreased to \$0.9 million for the three month period ended September 30, 2005 from \$1.2 million for the same period in 2004. The decrease consists primarily of both actual and planned reductions in headcount due to the reorganization plan to adjust management structure and consolidate three sales of divisions of five regions into one national sales organization consisting of eleven regions. The majority of costs associated with these planned reductions were accrued as of June 30, 2005. Lease termination penalty expenses were \$0.3 million for the three-month period ended September 30, 2005.

Interest Expense. Net interest expense increased to \$.02 million for the three month period ended September 30, 2005 from net interest income of \$0.07 million for the same period in 2004. This decrease was due to the repayment of Arch's 12% notes on May 28, 2004, partially offset by \$0.2 million of expense associated with the \$140.0 million of debt incurred to partially fund the cash election to former Metrocall shareholders in accordance with the terms of the merger agreement. All of the debt incurred as a result of the merger with Metrocall was repaid during the quarter.

Income Tax Expense. For the three-month period ended September 30, 2005, the Company recognized income tax expense of \$3.7 million. For the three-month period ended September 30, 2004, the Company recognized \$9.4 million of income tax expense. The Company anticipates the recognition of income tax expense to be required for the foreseeable future.

Comparison of the Results of Operations for the Nine Months Ended September 30, 2004 and 2005

	Nine Months Ended September 30,				Change Between	
	2004		2005		2004 and 2005	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
(Dollars in thousands)						
Revenues:						
Service, rental and maintenance	\$335,505	96.2%	\$455,647	95.9%	\$120,142	35.8%
Product sales	13,368	3.8	19,521	4.1	6,153	46.0
	<u>\$348,873</u>	<u>100%</u>	<u>\$475,168</u>	<u>100%</u>	<u>\$126,295</u>	
Selected operating expenses:						
Cost of products sold	2,485	0.7	3,153	0.7	668	26.9
Service, rental and maintenance (restated)	112,182	32.2	166,196	35.0	54,014	48.1
Selling and marketing	25,687	7.4	32,834	6.9	7,147	27.8
General and administrative (restated)	88,069	25.2	138,179	29.1	50,110	56.9
	<u>\$228,423</u>	<u>65.5%</u>	<u>\$340,362</u>	<u>71.6%</u>	<u>\$111,939</u>	

Revenues

Service, rental and maintenance revenues consist primarily of recurring fees associated with the provision of messaging services and rental of leased units. Product sales consist largely of revenues associated with the sale of devices and charges for leased devices that are not returned. The increase in revenues in each revenue type is the result of including revenues of Metrocall during 2005 as compared to Arch only during 2004.

	Nine Months Ended September 30,	
	2004	2005
	(Dollars in thousands)	
Service, rental and maintenance revenues:		
Paging:		
Direct:		
One-way messaging	\$251,525	\$324,538
Two-way messaging	62,251	84,385
	<u>\$313,776</u>	<u>\$408,923</u>
Indirect:		
One-way messaging	\$ 19,442	\$ 30,721
Two-way messaging	1,446	7,175
	<u>\$ 20,888</u>	<u>\$ 37,896</u>
Total Paging:		
One-way messaging	\$270,967	\$355,259
Two-way messaging	63,697	91,560
	<u>\$334,664</u>	<u>\$446,819</u>
Non-Paging revenue	841	8,828
Total service, rental and maintenance revenues	<u>\$335,505</u>	<u>\$455,647</u>

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The table below sets forth units in service and service revenues, the changes in each between the nine months ended September 30, 2004 and 2005 and the change in revenue associated with differences in the number of units in service and ARPU.

	Units in Service			Revenues			Change Due to:	
	As of September 30,			Nine Months Ended September 30,			ARPU	Units
	2004	2005	Change	2004(a)	2005(a)	Change		
	(Units in thousands)			(Dollars in thousands)				
One-way messaging	3,507	4,662	1,155	\$270,967	\$355,259	\$ 84,292	\$(11,815)	\$ 96,107
Two-way messaging	265	454	189	63,697	91,560	27,863	(22,227)	50,090
Total	3,772	5,116	1,344	\$334,664	\$446,819	\$112,155	\$(34,042)	\$146,197

(a) Amounts shown exclude non-paging and product sales revenues.

As previously discussed, demand for messaging services has declined over the past several years and we anticipate that it will continue to decline for the foreseeable future in line with recent trends, which would result in reductions in service revenue due to the lower number of subscribers.

Operating Expenses

Cost of Products Sold. Cost of products sold consists primarily of the cost basis of devices sold to or lost by our customers. The increase for the nine months ended September 30, 2005 was due primarily to an increase in the number of device transactions due to the Metrocall merger.

Service, Rental and Maintenance. Service, rental and maintenance expenses consist primarily of the following significant items:

	Nine Months Ended September 30,				Change Between	
	2004		2005		2004 and 2005	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(Dollars in thousands)					
Lease payments for transmitter locations	\$ 60,444	17.3%	\$ 95,455	20.1%	\$35,011	57.9%
Telecommunications related expenses	20,376	5.8	32,692	6.9	12,316	60.4
Payroll and related expenses	18,848	5.4	24,004	5.1	5,156	27.4
Other (restated)	12,514	3.6	14,045	3.0	1,531	12.2
Total	\$112,182	32.2%	\$166,196	35.0%	\$54,014	48.1%

As illustrated in the table above, service, rental and maintenance expenses increased \$54.0 million or 48.1% from 2004. The percentage of these costs to revenues also increased, primarily due to the acquisition of the Metrocall one-way and two-way networks that resulted in increased lease and telecommunications related expenses.

Following is a discussion of each significant item listed above:

- **Lease payments for transmitter locations** — The increase in lease payments for transmitter locations consists of an increase of \$35.0 million primarily due to the Metrocall one-way and two-way networks. As discussed earlier, we have begun to deconstruct one of our two-way networks and to rationalize our one-way networks. However, lease payments are subject to underlying obligations contained in each lease agreement, some of which do not allow for immediate savings when our equipment is removed. Further, leases may consist of payments for multiple sets of transmitters, antenna structures or network infrastructures on a particular site. In some cases, we remove only a portion of the equipment to which the lease payment relates. Under these circumstances, reduction of future rent payments is often subject to negotiation and our success is dependent on many factors, including the number of other sites we lease from the lessor, the amount and location of equipment remaining at the site and the remaining term of the lease. Therefore, lease payments for transmitter locations are generally fixed in the short term, and as a result, to date, we have

not been able to reduce these payments at the same rate as the rate of decline in units in service and revenues, resulting in an increase in these expenses as a percentage of revenues.

- *Telecommunications related expenses* — The increase in telecommunications expenses reflected an increase of \$12.3 million resulting from the Metrocall merger, net of \$1.5 million benefit that was recorded as a reduction to telecommunications expense due to settlement of a roaming agreement. We have also begun the process to reduce these costs as we consolidate and rationalize our one-way and two-way networks. Reductions in these expenses should occur as our networks are consolidated throughout 2005 and 2006.
- *Payroll and related expenses* — Payroll consists largely of field technicians and their managers. This functional work group does not vary as closely to direct units in service as other work groups since these individuals are a function of the number of networks we operate rather than the number of units in service on our networks. Payroll for this category increased \$5.2 million, primarily due to an increase in employees resulting from the merger with Metrocall.
- *Other* — Other includes a decrease of \$0.4 million in 2004 and \$0.6 million in 2005 due to a gain on deconstructing transmitters at a cost less than the estimated fair value of the related asset retirement cost obligation.

Selling and Marketing. Selling and marketing expenses consist primarily of payroll and related expenses. Selling and marketing payroll and related expenses increased \$7.1 million or 27.8% over 2004. This increase was due primarily to an increase in the number of sales representatives and sales management which resulted from the merger with Metrocall.

General and Administrative. General and administrative expenses consist of the following significant items:

	Nine Months Ended September 30,				Change Between 2004 and 2005	
	2004	% of	2005	% of		
	Amount	Revenue	Amount	Revenue	Amount	%
	(Dollars in thousands)					
Payroll and related expenses (restated)	\$40,281	11.5%	\$ 51,399	10.8%	\$11,118	27.6%
Bad debt	1,949	0.6	4,929	1.0	2,980	152.9
Facility expenses	10,346	3.0	16,709	3.5	6,363	61.5
Telecommunications	4,925	1.4	7,809	1.6	2,884	58.6
Outside services	8,584	2.5	19,999	4.2	11,415	133.0
Taxes and permits (restated)	8,627	2.5	16,333	3.4	7,706	89.3
Other	13,357	3.8	21,001	4.5	7,644	57.2
Total	<u>\$88,069</u>	<u>25.2%</u>	<u>\$138,179</u>	<u>29.1%</u>	<u>\$50,110</u>	<u>56.9%</u>

As illustrated in the table above, general and administrative expenses increased \$50.1 million from the nine month period ended September 30, 2004 due to the inclusion of Metrocall operations. The percentages of these expenses to revenue also increased, primarily due to the following:

- *Payroll and related expenses* — Payroll and related expenses include employees in customer service, inventory, collections, finance and other back office functions as well as executive management. We anticipate staffing reductions over the next quarter.
- *Bad debt* — Bad debt expense increased \$3.0 million due largely to the increase in revenue.
- *Telecommunications* — The increase in telecommunications expense reflects the inclusion of Metrocall operations.
- *Outside Services* — Outside services consists primarily of costs associated with printing and mailing invoices, outsourced customer service, temporary help and various professional fees. The increase in 2005 was due primarily to higher temporary help and professional fees due to integration related activities. The

year-to-date period also included a benefit of \$1.5 million during the third quarter of 2005 for the reimbursement of legal fees under an insurance policy.

- *Taxes and Permits* — Taxes and permits consist primarily of property, franchise and gross receipts taxes. The increase in taxes and permits consists primarily of an increase resulting from the inclusion of Metrocall operations. The increase in taxes and permits expense as a percentage of revenue was due primarily to gross receipts taxes enacted in several jurisdictions in 2004.
- *Other expenses* — Other expenses consist primarily of postage and express mail costs associated with the shipping and receipt of messaging devices of \$5.3 million, repairs and maintenance associated with computer hardware and software of \$4.2 million, insurance of \$3.6 million and other expenses of \$7.9 million which increased primarily due to the merger with Metrocall.

Depreciation, Amortization and Accretion. Depreciation, amortization and accretion expenses increased to \$104.7 million (restated) for the nine month period ended September 30, 2005 from \$76.5 million (restated) for the same period in 2004. This increase was due primarily to depreciation and amortization expense of the tangible and intangible assets acquired from Metrocall of \$30.8 million, offset by a decrease of \$3.2 million from Arch assets becoming fully depreciated. The remaining increase of \$0.5 million resulted from additional accretion expense on asset retirement obligation liabilities. Depreciation expense for the nine months ended September 30, 2005, also includes \$0.2 million for assets damaged and lost due to Hurricanes Katrina and Rita.

Stock Based Compensation. Stock based compensation consists primarily of amortization of compensation expense associated with restricted common stock and options issued to certain members of management. USA Mobility uses the fair-value based method of accounting for stock based compensation. Stock based compensation decreased to \$2.3 million for the nine month period ended September 30, 2005 from \$6.0 million for the same period in 2004. The decrease is attributable to the outstanding options vested in May 2005, offset by the compensation expense resulting from the grant of 103,937 shares of restricted common stock to eligible employees on June 7, 2005.

Severance and Restructuring. These costs were \$5.5 million and \$15.9 million for the nine months ended September 30, 2004 and 2005, respectively and consisted of charges resulting from staff reductions as the Company continued to match its employee levels to operational requirements.

Interest Expense. Net interest expense decreased to \$1.7 million for the nine month period ended September 30, 2005 from \$5.0 million for the same period in 2004. This decrease was due to the repayment of Arch's 12% notes on May 28, 2004 partially offset by \$2.4 million of expense associated with the \$140.0 million of debt incurred to partially fund the cash election to former Metrocall shareholders in accordance with the terms of the merger agreement. All of the debt incurred as a result of the merger with Metrocall was repaid by September 30, 2005.

Income Tax Expense. The income tax provision for the nine month period ended September 30, 2005, was \$4.0 million. The provision for the nine months ended September 30, 2004 was \$14.3 million. We anticipate recognition of provisions for income taxes to be required for the foreseeable future.

Liquidity and Capital Resources

Overview

Based on current and anticipated levels of operations, we anticipate net cash provided by operating activities, together with the \$43.3 million of cash on hand at September 30, 2005, should be adequate to meet our anticipated cash requirements for the foreseeable future.

In the event that net cash provided by operating activities and cash on hand are not sufficient to meet future cash requirements, we may be required to reduce planned capital expenditures, sell assets or seek additional financing. We can provide no assurance that reductions in planned capital expenditures or proceeds from asset sales would be sufficient to cover shortfalls in available cash or that additional financing would be available on acceptable terms.

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Our net cash flows from operating, investing, and financing activities for the periods indicated in the table below were as follows (dollars in thousands):

	Nine Months Ended September 30,		Increase/ (Decrease)
	2004	2005	
Net cash provided by operating activities	\$ 87,307	\$100,289	\$ 12,982
Net cash used in investing activities	\$(13,485)	\$ (8,997)	\$ (4,488)
Net cash used in financing activities	\$(63,112)	\$ (94,964)	\$ 31,852

Net Cash Provided by Operating Activities. As discussed above, we are dependent on cash flows from operating activities to meet our cash requirements. Cash from operations varies depending on changes in various working capital items including deferred revenues, accounts payable, accounts receivable, prepaid expenses and various accrued expenses. The following table includes the significant cash receipt and expenditure components of our cash flows from operating activities for the periods indicated and sets forth the change between the indicated periods (dollars in thousands):

	Nine Months Ended September 30,		Increase/ (Decrease)
	2004	2005	
Cash received from customers	\$347,455	\$464,457	\$117,002
Cash paid for —			
Payroll and related expenses	94,411	121,141	26,730
Lease payments for tower locations	67,983	98,806	30,823
Telecommunications expenses	26,494	37,326	10,832
Interest expense	6,709	2,210	(4,499)
Other operating expenses	64,551	104,685	40,134
	<u>260,148</u>	<u>364,168</u>	<u>104,020</u>
Net cash provided by operating activities	<u>\$ 87,307</u>	<u>\$100,289</u>	<u>\$ 12,982</u>

Net cash provided by operating activities for the nine months ended September 30, 2005 increased \$13.0 million from the same period in 2004 due primarily to the following:

- Cash received from customers increased \$117.0 million in 2005 compared to the same period in 2004. This measure consists of revenues and direct taxes billed to customers adjusted for changes in accounts receivable, deferred revenue and tax withholding amounts. The increase was due primarily to revenue increases of \$126.3 million, as discussed earlier, and a greater change in accounts receivable, \$5.7 million increase in 2005 compared to \$5.1 million decrease in 2004. The change in accounts receivable was due to higher billings resulting from more units in service and higher revenue, which were a result of the merger with Metrocall.
- Cash payments for payroll and related expenses increased \$26.7 million due primarily to higher payroll expenses related to the merger with Metrocall, as discussed above, and \$6.8 million of higher payments for incentives and other payroll amounts.
- Lease payments for tower locations increased \$30.8 million. This increase was due primarily to payments for a greater number of tower locations resulting from the merger with Metrocall.
- Cash used for telecommunications related expenditures increased \$10.8 million in 2005 compared to the same period in 2004. This increase was due primarily to factors presented above in the discussions of service, rental and maintenance expense and general and administrative expenses.
- The decrease in interest payments for the nine months ended September 30, 2005 compared to the same period in 2004 was due to the repayment of Arch's 12% notes in May 2004. From June 2004 through November 16, 2004 we had no long-term debt outstanding. On November 16, 2004 we borrowed

\$140.0 million to partially fund a portion of the cash election in conjunction with the merger. Prior to December 31, 2004, we repaid \$45.0 million of principal and subsequent to December 31, 2004 and through September 30, 2005 we repaid \$95.0 million of principal. On August 22, 2005, USA Mobility repaid the remaining balance on its bank credit facility in full satisfaction of its bank debt obligation.

- Cash payments for other expenses primarily includes repairs and maintenance, outside services, facility rents, taxes and permits, office and various other expenses. The increase in these payments was primarily related to increased balances of prepaid expenses and other current assets, and higher payments for outside services of \$12.8 million and taxes and permits of \$7.7 million.

Net Cash Used In Investing Activities. Net cash used in investing activities in 2005 decreased \$4.5 million from the same period in 2004 due primarily to lower capital expenditures. The merger of the two companies provided additional messaging devices allowing for reduced capital expenditures. Our business requires funds to finance capital expenditures which primarily include the purchase and repair of messaging devices, system and transmission equipment and information systems. Capital expenditures for 2005 consisted primarily of the purchase of messaging devices and expenditures related to transmission and information systems and other equipment, offset by the net proceeds from the sale of other assets. The amount of capital we require in the future will depend on a number of factors, including the number of existing subscriber devices to be replaced, the number of gross placements, technological developments, total competitive conditions and the nature and timing of our strategy to integrate and consolidate our networks. We anticipate our total capital expenditures for 2005 to be between \$12.0 to \$15.0 million.

Net Cash Used In Financing Activities. Net cash used in financing activities in 2005 increased \$31.9 million from the same period in 2004. In November 2004 as discussed above, we borrowed \$140.0 million primarily to fund a portion of the cash consideration related to the Metrocall merger. Our use of cash in 2005 related primarily to principal repayments of those borrowings. In 2004, we used \$20.0 million of net cash provided by operating activities to redeem Arch's 12% notes.

Cash Distributions to Shareholders. The Board of Directors of USA Mobility has declared a special one-time cash distribution to shareholders of \$1.50 per share has been declared on November 2, 2005, with a record date of December 1, 2005, and a payment date of December 21, 2005. This dividend will be paid from available cash on hand.

Borrowings. At June 30, 2005, we had aggregate principal amount of borrowings outstanding under our credit agreement of \$26.5 million. During the third quarter, the Company repaid the remaining balance of \$26.5 million on its bank credit facility in full satisfaction of its bank debt obligation. As of September 30, 2005, the Company had no material borrowings or associated debt service requirements.

Commitments and Contingencies

Operating Leases. USA Mobility has operating leases for office and transmitter locations with lease terms ranging from one month to approximately eighteen years. (Total rent expense under operating leases for the nine month period ending September 30, 2005 approximated \$106.4 million.)

Other Commitments. We have a commitment to fund annual cash flow deficits, if any, of GTES, LLC ("GTES"), a company in which we have a majority ownership interest, of up to \$1.5 million during the initial three-year period following the investment date of February 11, 2004. Funds may be provided to GTES in the form of capital contributions or loans. No funding has been required through September 30, 2005.

Off-Balance Sheet Arrangements. We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Contingencies. USA Mobility, from time to time, is involved in lawsuits arising in the normal course of business. USA Mobility believes that its pending lawsuits will not have a material adverse effect on its financial position, results of operations, or cash flows.

Related Party Transactions

As of November 16, 2004, two members of the Company's board of directors also serve as directors for entities from which we lease transmission tower sites. During the nine months ended September 30, 2005, the Company paid \$18.6 million and \$2.5 million, respectively, to these landlords for rent expenses. Each director has recused himself from any discussions or decisions we make on matters relating to the relevant vendor.

Application of Critical Accounting Policies

The preceding discussions and analysis of financial condition and results of operations are based on our consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. On an on-going basis, we evaluate estimates and assumptions, including but not limited to those related to the impairment of long-lived assets, allowances for doubtful accounts and service credits, revenue recognition, asset retirement obligations, restructuring liabilities and income taxes. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

Risk Factors Affecting Future Operating Results

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

The rate of revenue erosion may not improve, or may deteriorate.

We continue to face intense competition for subscribers due to technological competition from the mobile phone and personal digital assistant service providers as they continue to lower device prices while adding functionality. A key factor in our ability to be profitable and produce net cash flow from monthly subscription fees and operations is realizing improvement in the rate of revenue erosion from historical levels. If no improvement is realized, it may have a material adverse effect on our ability to be profitable and produce positive cash flow. We are dependent on net cash provided by operations as our principal source of liquidity. If our revenue continues to decline at the same or at an accelerated rate compared to the decline that we experienced on a pro forma basis assuming the Metrocall merger occurred at the beginning of 2004, it could outpace our ability to reduce costs, and adversely affect our ability to produce positive net cash flow from operations.

We may fail to successfully integrate the operations of Arch and Metrocall and therefore may not achieve the anticipated cost benefits of the merger.

We face significant challenges in the integration of the operations of Arch and Metrocall. Some of the key issues include managing the combined Company's networks, maintaining adequate focus on existing business and operations while working to integrate the two companies, managing marketing and sales efforts and integrating other key redundant systems for the combined operations.

The integration of Arch and Metrocall continues to require substantial attention from our management, particularly in light of the companies' geographically dispersed operations, different business cultures and compensation structures. The diversion of our management's attention and any difficulties associated with integrating operations could have a material adverse effect on our revenues, level of expenses and results of operations. We may not succeed in the final system and operations integration efforts that we are striving to achieve

without incurring substantial additional costs or achieve the integration efforts within a reasonable time and thus may not realize the anticipated cost benefits of the merger.

We may fail to achieve the cost savings expected from the merger.

The anticipated cost savings resulting from the merger are based on a number of assumptions, including implementation of cost saving programs such as headcount reductions, consolidation of geographically dispersed operations and elimination of duplicative administrative systems and processes within a projected period. In addition, the cost savings estimates assume that we will be able to realize efficiencies such as leverage in procuring messaging devices and other goods and services resulting from the increased size of the combined Company. Failure to successfully implement cost saving programs or otherwise realize efficiencies could materially adversely affect our cash flows, our results of operations and, ultimately, the value of our common stock.

If we are unable to retain key management personnel, we might not be able to find suitable replacements on a timely basis or at all and our business could be disrupted.

Our success will depend, to a significant extent, upon the continued service of a relatively small group of key executive and management personnel. We have an employment agreement with our president and chief executive officer. Our board of directors has implemented a long-term incentive plan for senior management utilizing the equity incentive program approved by our shareholders in connection with our merger. We have issued restricted stock to our key executives that vest on January 1, 2008. The loss or unavailability of one or more of our executive officers or the inability to attract or retain key employees in the future could have a material adverse effect on our future operating results, financial position and cash flows.

We may be unable to find vendors willing to supply us with paging equipment based on future demands.

We purchase paging equipment from third party vendors. This equipment is sold or leased to our customers in order to provide our wireless messaging services. The reduction in industry demand for paging equipment has caused various suppliers to cease manufacturing this equipment. We believe that our current multiple vendor relationships, our current on-hand inventories of paging equipment and our repair and maintenance programs will ensure an adequate supply of paging equipment for the foreseeable future; however, we are unable to predict if the existing third party vendors will continue to supply paging equipment. A lack of paging equipment could impact our ability to provide certain wireless messaging services and could materially adversely affect our cash flows, results of operations, and ultimately, the value of our common stock.

Future changes in ownership of our stock could prevent us from using our consolidated tax assets to offset future taxable income, which would materially reduce our expected after-tax net income and cash flows from operations. Actions available to us to preserve our consolidated tax assets could result in less liquidity for our common stock and/or depress the market value of our stock.

If we were to undergo an “ownership change”, as that term is defined in Section 382 of the Internal Revenue Code, our use of our tax assets would be significantly restricted, which would reduce our after-tax net income and cash flow. This in turn could reduce our ability to fund our operations.

Generally, an ownership change will occur if a cumulative shift in ownership of more than 50% of our common stock occurs during a rolling three year period. The cumulative shift in ownership is a measurement of the shift in ownership of our stock held by stockholders that own 5% or more of our stock. In general terms, it will equal the aggregate of any increases in the percentage of stock owned by each stockholder that owns 5% or more of our stock at any time during the testing period over the lowest percentage of stock owned by each such shareholder during the testing period. The testing period generally is the prior three years, but begins no earlier than May 30, 2002, the day after Arch emerged from bankruptcy.

As of September 30, 2005, we have undergone a combined cumulative change in ownership of approximately 39%. The determination of our percentage ownership change is dependent on provisions of the tax law that are subject to varying interpretations and on facts that are not precisely determinable by us at this time. Therefore, our cumulative shift in ownership may be more or less than approximately 39% and, in any event, may increase by

reason of subsequent transactions in our stock by stockholders who own 5% or more of our stock, and certain other transactions affecting the direct or indirect ownership of stock.

There are transfer restrictions available to us in our Amended and Restated Certificate of Incorporation which permit us to generally restrict transfers by or to any 5% shareholder of our common stock or any transfer that would cause a person or group of persons to become a 5% shareholder of our common stock. We intend to enforce these restrictions in order to preserve our consolidated tax assets, and such enforcement by us may result in less liquidity for our common stock and/or depress the market price for our shares.

We have material weaknesses in internal control over financial reporting and cannot assure you that additional material weaknesses will not be identified in the future. Our failure to implement and maintain effective internal control over financial reporting could result in material misstatements in the financial statements.

Management has identified material weaknesses in our internal control over financial reporting that affected USA Mobility's financial statements for the periods ended December 31, 2002, 2003, 2004 and 2005 and the first three quarters of the years ended December 31, 2004 and 2005. See "Item 4. Controls and Procedures."

The material weaknesses in our internal control over financial reporting during these periods related to ineffective controls over the accuracy and valuation of income taxes and related deferred income tax balances; over the completeness and accuracy of transactional and income taxes; over the completeness and accuracy of depreciation expense and accumulated depreciation and over the completeness, accuracy and valuation of asset retirement costs, obligation liabilities and the related depreciation, amortization and accretion expense.

We cannot assure you that additional material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties that may be encountered in their implementation, could result in additional material weaknesses, cause the Company to fail to meet its periodic reporting obligations or result in material misstatements in the Company's financial statements. Any such failure could also adversely affect the results of periodic management evaluations and annual auditor reports regarding the effectiveness of the Company's internal control over financial reporting required under Section 404 of the Sarbanes-Oxley Act of 2002 and the rules promulgated under Section 404. The existence of a material weakness could result in errors in our financial statements that could result in a restatement of financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At September 30, 2005, our outstanding debt financing has been fully repaid.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(b) under the Securities and Exchange Act of 1934, as amended, as of the end of the period covered by this quarterly report.

Management had previously concluded the Company's disclosure controls and procedures were effective as of September 30, 2005. However, in connection with the restatement of the Company's 2003 and 2004 annual and interim consolidated financial statements as fully described in Note 1 of the 10-Q/A, management determined that the material weaknesses described below existed as of September 30, 2005. Accordingly, our Chief Executive Officer and Chief Financial Officer have now concluded that disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were not effective as of September 30, 2005 to ensure information required to be disclosed by us in the reports we file or submit under the Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified within the SEC's rules and forms and that such information is accumulated and communicated to our management, including

our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Notwithstanding the material weaknesses described below, management believes the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q/A fairly present in all material respects our financial condition, results of operations and cash flows for all periods presented.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood, that a material misstatement of the annual or interim quarterly financial statements will not be prevented or detected.

As a result of this evaluation, management identified the following material weaknesses in our internal control over financial reporting. Specifically, management concluded as of September 30, 2005:

1. *The Company did not maintain effective controls over the accuracy and valuation of the provision for income taxes and the related deferred income tax balances.* Specifically, the Company did not maintain effective controls to review and monitor the accuracy of the components of the income tax provision calculation and related deferred income taxes and to monitor the differences between the income tax basis and the financial reporting basis of assets and liabilities to effectively reconcile the deferred income tax balances; the Company lacked effective controls to accurately determine the effective overall income tax rate to use in tax provision computations; the Company lacked effective controls to appropriately analyze, review and assess the impact of state laws on the recoverability of the Company's state net operating losses; and, the Company lacked controls over the valuation of deferred tax assets to ensure the appropriate application of federal limitations. This control deficiency resulted in the restatement of the Company's consolidated financial statements for 2002, 2003 and 2004, restatement of each of the first three interim periods in 2004 and 2005 and audit adjustments to the Company's 2005 financial statements to correct income tax expense, deferred tax assets, additional paid-in capital and goodwill accounts. Additionally, this control deficiency could result in a misstatement of the aforementioned accounts that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, management determined that this control deficiency constitutes a material weakness.

2. *The Company did not maintain effective controls over the completeness and accuracy of transactional taxes.* Specifically, the Company lacked effective controls to ensure state and local transactional taxes, including surcharges and sales and use taxes, were completely and accurately recorded in accordance with generally accepted accounting principles. This control deficiency resulted in the restatement of the Company's consolidated financial statements for 2002, 2003 and 2004 and restatement of each of the first three interim periods in 2004 and 2005 to correct general and administrative expenses and accrued taxes liability accounts. Additionally, this control deficiency could result in a misstatement of the aforementioned accounts that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, management determined that this control deficiency constitutes a material weakness.

3. *The Company did not maintain effective controls over the completeness and accuracy of depreciation expense and accumulated depreciation.* Specifically, the Company lacked effective controls to ensure the: (i) application of the appropriate useful lives for certain asset groups when calculating depreciation expense and (ii) timely preparation and review of account reconciliations and analyses, and manual journal entries related to the determination of depreciation expense and accumulated depreciation for the paging infrastructure assets. This control deficiency resulted in the restatement of the Company's consolidated financial statements for 2003 and 2004, each of the first three interim periods in 2004 and 2005 and audit adjustments to the Company's 2005 financial statements to correct depreciation expense and accumulated depreciation balances. Additionally, this control deficiency could result in a misstatement of the aforementioned accounts that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, management determined that this control deficiency constitutes a material weakness.

4. *The Company did not maintain effective controls over the completeness, accuracy and valuation of asset retirement cost, asset retirement obligation and the related depreciation, amortization and accretion expense.* Specifically, the Company did not maintain effective controls to ensure that the asset retirement cost and asset retirement obligation were calculated utilizing the fair value of costs to deconstruct network assets, in accordance

with generally accepted accounting principles. The Company also lacked effective controls to consistently apply their expectations of the usage of assets for recording depreciation expense with the estimates of transmitter deconstructions for the asset retirement obligation. This control deficiency resulted in the restatement of the Company's consolidated financial statements for 2002, 2003 and 2004, each of the first three interim periods in 2004 and 2005 and audit adjustments to the Company's 2005 financial statements to correct the asset retirement cost and asset retirement obligation and the related depreciation, amortization, and accretion expense. Additionally, this control deficiency could result in a misstatement of the aforementioned accounts that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, management determined that this control deficiency constitutes a material weakness.

Changes in Internal Control Over Financial Reporting

We started the conversion of the Arch site and office rent management system to the site and office rent management system of our Metrocall subsidiary in the third quarter of 2005.

In connection with our efforts to integrate Metrocall into our operations and in order to remediate the above control deficiencies at our Metrocall subsidiary. With respect to staffing, we have engaged a third-party vendor to provide on-going internal audit services.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

As previously disclosed, on November 10, 2004, three former Arch senior executives (the “Former Executives”) filed a Notice of Claim before the JAMS/Endispute arbitration forum in Boston, Massachusetts, asserting they were terminated from their employment by Arch pursuant to a “change in control” as defined in their respective Executive Employment Agreements (the “Claims”). On May 9, 2005, the Former Executives agreed to dismiss the Claims with prejudice against all parties in exchange for a settlement payment of \$4.3 million.

USA Mobility was named as a defendant, along with Arch, Metrocall and Metrocall’s former board of directors, in two lawsuits filed in the Court of Chancery of the State of Delaware, New Castle County, on June 29, 2004 and July 28, 2004. We and the other defendants entered into a settlement agreement with the plaintiffs which was approved by the court on May 18, 2005 and the case was dismissed.

USA Mobility, from time to time is involved in lawsuits arising in the normal course of business. We believe that our pending lawsuits will not have a material adverse effect on its financial position, results of operations, or cash flows.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits listed in the accompanying Exhibit Index are filed as part of this Quarterly Report on Form 10-Q/A and such Exhibit Index is incorporated herein by reference.

SIGNATURES

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 thereunto duly authorized.

USA MOBILITY, INC.

/s/ THOMAS L. SCHILLING

Thomas L. Schilling
Chief Financial Officer

Dated: May 24, 2006

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
31.1*	Certificate of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated May 24, 2006
31.2*	Certificate of the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated May 24, 2006
32.1*	Certificate of the Chief Executive Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated May 24, 2006
32.2*	Certificate of the Chief Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated May 24, 2006

* Filed herewith

CERTIFICATIONS

I, Vincent D. Kelly, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q/A of USA Mobility, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 24, 2006

/s/ Vincent D. Kelly

Vincent D. Kelly.

President and Chief Executive Officer

CERTIFICATIONS

I, Thomas L. Schilling, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q/A of USA Mobility, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 24, 2006

/s/ Thomas L. Schilling

Thomas L. Schilling
Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report on Form 10-Q/A of USA Mobility, Inc. (the “Company”) for the period ended September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Vincent D. Kelly, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 24, 2006

/s/ Vincent D. Kelly

Vincent D. Kelly
President and Chief Executive Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report on Form 10-Q of USA Mobility, Inc. (the “Company”) for the period ended September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Thomas L. Schilling, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 24, 2006

/s/ Thomas L. Schilling

Thomas L. Schilling
Chief Financial Officer