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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Amendment No. 1 to Form 10-K on
FORM 10-K/A

(Mark One)
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 X For the Fiscal Year Ended December 31, 2000

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from -------------- to ------------------

Commission file numbers 0-23232/1-14248

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

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

1800 West Park Drive, Suite 250 Westborough, Massachusetts	01581
(address of principal executive offices)	(Zip Code)

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b)OF THE
SECURITIES EXCHANGE ACT OF 1934:

10 7/8% Senior Discount Notes due 2008	American Stock Exchange
(Title of Class)	(Name of exchange on which registered)

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE
SECURITIES EXCHANGE ACT OF 1934:
Common Stock Par Value $.01 Per Share
Class B Common Stock Par Value $.01 Per Share
Warrants
(Title of class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES____X_____ NO________

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K _____________

The aggregate market value of the voting stock held by non-affiliates of the Registrant at March 19, 2001 was approximately $105,422,000.

The number of shares of Registrant's common stock outstanding on March 19, 2001 was 171,640,593. The number of shares of Registrant's Class B common stock outstanding on March 19, 2001 was 681,497.

Portions of Registrant's Definitive Proxy Statement for the 2001 Annual Meeting of Stockholders of the Registrant to be held on May 15, 2001, are incorporated by reference into Part III.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (1) Financial Statements

Consolidated Balance Sheets as of December 31, 1999 and 2000
Consolidated Statements of Operations for Each of the Three Years in the Period Ended December 31, 2000
Consolidated Statements of Stockholders' Equity (Deficit) for Each of the Three Years in the Period Ended December 31, 2000
Consolidated Statements of Cash Flows for Each of the Three Years in the Period Ended December 31, 2000
Notes to Consolidated Financial Statements

(c) Exhibits

The exhibits listed in the accompanying index to exhibits are filed as part of this annual report on Form 10-K/A.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

ARCH WIRELESS, INC.

By: /s/ J. Roy Pottle

J. Roy Pottle
Executive Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)

May 21, 2001

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Consolidated Statements of Stockholders' Equity (Deficit) for Each of the Three Years in the Period Ended December 31, 2000..........

Consolidated Statements of Cash Flows for Each of the Three Years in the Period Ended December 31, 2000..........

Notes to Consolidated Financial Statements..........

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Arch Wireless, Inc.:

We have audited the accompanying consolidated balance sheets of Arch Wireless, Inc. (a Delaware corporation) (the "Company") and subsidiaries as of December 31, 1999 and 2000, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Arch Wireless, Inc. and subsidiaries as of December 31, 1999 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

As discussed further in Note 1, subsequent to March 1, 2001, the date of our original report, the Company prepared a range of financial projections for the remainder of its current fiscal year. Based on the range of these projections,

the Company, in certain circumstances, may no longer be in compliance with the various debt covenants of its credit facility as of September 30, 2001. This factor creates a substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result should the Company be unable to continue as a going concern.

/s/ ARTHUR ANDERSEN LLP

Boston, Massachusetts
March 1, 2001 (except
for the matter discussed in
Note 1 as to which the
date is May 18, 2001)

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ARCH WIRELESS, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	De
	1999
ASSETS	
Current assets:	
Cash and cash equivalents	$ 3,1
Accounts receivable (less reserves of $16,473 and $62,918 in 1999 and 2000, respectively)	61,1
Inventories	9,1
Prepaid expenses and other	11,8
Total current assets	85,3
Property and equipment, at cost:	
Land, buildings and improvements	20,5
Messaging and computer equipment	667,8
Furniture, fixtures and vehicles	26,3
	714,6
Less accumulated depreciation and amortization	314,4
Property and equipment, net	400,1
Intangible and other assets (less accumulated amortization of $515,195 and $697,446 in 1999 and 2000, respectively)	867,5
	$ 1,353,0
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	
Current liabilities:	
Current maturities of long-term debt	$ 8,0
Accounts payable	30,0

Accrued restructuring charges	17,1
Accrued expenses	43,6
Accrued interest	30,2
Customer deposits	7,5
Deferred revenue	28,1
Total current liabilities	164,8
Long-term debt, less current maturities	1,322,5
Other long-term liabilities	83,2
Deferred income taxes	--
Commitments and contingencies	
Redeemable preferred stock	28,1
Stockholders' equity (deficit):	
Common stock--$.01 par value, authorized 300,000,000 shares, issued and outstanding: 47,263,500 and 161,536,656 shares in 1999 and 2000, respectively	4
Class B common stock--$.01 par value, authorized 10,000,000 shares; issued and outstanding: 3,968,164 and 1,991,945 shares in 1999 and 2000, respectively	
Additional paid-in capital	633,2
Accumulated other comprehensive income	--
Accumulated deficit	(879,4
Total stockholders' equity (deficit)	(245,7
	$ 1,353,0

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

ARCH WIRELESS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)

	Years Ended December 31,		
	1998	1999	
Service, rental and maintenance revenues	$ 371,154	$ 591,389	$
Product sales	42,481	50,435	
Total revenues	413,635	641,824	
Cost of products sold	(29,953)	(34,954)	
	383,682	606,870	
Operating expenses:			

Service, rental and maintenance	80,782	132,400
Selling	49,132	84,249
General and administrative	112,181	180,726
Depreciation and amortization	221,316	309,434
Restructuring charge	14,700	(2,200)
Total operating expenses	478,111	704,609
Operating income (loss)	(94,429)	(97,739)
Interest expense	(104,019)	(144,924)
Interest income	1,766	1,896
Other expense	(1,960)	(45,221)
Equity in loss of affiliate	(5,689)	(3,200)
Income (loss) before income tax benefit, extraordinary items and accounting change	(204,331)	(289,188)
Benefit from income taxes	--	--
Income (loss) before extraordinary items and accounting change	(204,331)	(289,188)
Extraordinary gain (loss) from early extinguishment of debt	(1,720)	6,963
Cumulative effect of accounting change	--	(3,361)
Net income (loss)	(206,051)	(285,586)
Accretion of redeemable preferred stock	--	--
Preferred stock dividend	(1,030)	(2,146)
Net income (loss) applicable to common stockholders ..	$ (207,081)	$ (287,732)
Basic/diluted income (loss) per common share before extraordinary item and accounting change	$ (29.34)	$ (9.21)
Extraordinary gain (loss) from early extinguishment of debt per basic/diluted common share	(0.25)	0.22
Cumulative effect of accounting change per basic/diluted common share	--	(0.11)
Basic/diluted net income (loss) per common share	$ (29.59)	$ (9.10)
Basic/diluted weighted average number of common shares outstanding	6,997,730	31,603,410

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

ARCH WIRELESS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(in thousands, except share amounts)

Accumulated

	Common Stock	Class B Common Stock	Additional Paid-in Capital	Other Comprehensive Income	Accumulate Deficit
Balance, December 31, 1997	$ 70	$ --	$ 351,349	$ --	$ (384,6
Net loss	--	--	--	--	(206,0
Exercise of options to purchase 31,344 shares of common stock	--	--	294	--	
Issuance of 85,996 shares of common stock under Arch's employee stock purchase plan	1	--	548	--	
Preferred stock dividend	--	--	--	--	(1,0
Balance, December 31, 1998	71	--	352,191	--	(591,7
Net loss	--	--	--	--	(285,5
Issuance of 30,847,004 shares of common stock and 5,360,261 of Class B common stock in rights offering	308	54	216,881	--	
Issuance of 4,781,656 shares of common stock to acquire company	48	--	20,035	--	
Shares to be issued in connection with the Benbow settlement	--	--	22,836	--	
Issuance of 3,136,665 shares of common stock in exchange for debt	31	--	21,106	--	
Issuance of 34,217 shares of common stock under Arch's employee stock purchase plan	--	--	191	--	
Conversion of Class B common stock into common stock	14	(14)	--	--	
Preferred stock dividend	--	--	--	--	(2,1
Balance, December 31, 1999	472	40	633,240	--	(879,4
Net loss	--	--	--	--	(309,7
Foreign currency translation adjustments	--	--	--	(82)	
Total comprehensive loss					
Issuance of 89,896,907 shares of common stock to acquire company	899	--	262,499	--	
Issuance of 12,468,632 shares of common stock in exchange for debt	125	--	156,851	--	
Issuance of 6,613,180 shares of common stock in exchange for redeemable preferred stock	66	--	46,849	--	
Issuance of 2,856,721 shares of common stock in connection with the Benbow settlement	28	--	(28)	--	
Issuance of 459,133 shares of common stock under Arch's employee stock purchase plan	5	--	570	--	
Exercise of Warrants to purchase 2,364 shares of common stock	--	--	21	--	
Conversion of Class B common stock into common stock	20	(20)	--	--	
Preferred stock accretion	--	--	(4,223)	--	
Preferred stock dividend	--	--	--	--	(2,3
Balance, December 31, 2000	$ 1,615	$ 20	$1,095,779	$ (82)	$(1,191,5

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

ARCH WIRELESS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December	
	1998	1999
Cash flows from operating activities:		
Net income (loss)	$ (206,051)	$ (285,586)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	221,316	309,434
Deferred income tax benefit	--	--
Extraordinary loss (gain) from early extinguishment of debt	1,720	(6,963)
Cumulative effect of accounting change	--	3,361
Equity in loss of affiliate	5,689	3,200
Accretion of discount on long-term debt	37,115	41,566
Other non-cash interest expense	--	2,904
Gain on tower site sale	(1,859)	(1,871)
Write-off of N-PCS investments	--	37,498
Accounts receivable loss provision	8,545	15,265
Changes in assets and liabilities, net of effect from acquisitions of companies:		
Accounts receivable	(9,151)	(18,369)
Inventories	2,314	1,728
Prepaid expenses and other	(3,090)	7,000
Accounts payable and accrued expenses	24,649	(2,986)
Customer deposits and deferred revenue	549	(7,554)
Other long-term liabilities	1,634	909
Net cash provided by operating activities	83,380	99,536
Cash flows from investing activities:		
Additions to property and equipment, net	(79,249)	(95,208)
Additions to intangible and other assets	(33,935)	(18,443)
Net proceeds from tower site sale	30,316	3,046
Acquisition of companies, net of cash acquired	--	(516,561)
Net cash used for investing activities	(82,868)	(627,166)
Cash flows from financing activities:		
Issuance of long-term debt	460,964	473,783
Repayment of long-term debt	(489,014)	(162,059)
Net proceeds from sale of preferred stock	25,000	--
Net proceeds from sale of common stock	843	217,434

Net cash (used in) provided by financing activities	(2,207)	529,158	
Effect of exchange rate changes on cash	--	--	
Net (decrease) increase in cash and cash equivalents	(1,695)	1,528	
Cash and cash equivalents, beginning of period	3,328	1,633	
Cash and cash equivalents, end of period	$ 1,633	$ 3,161	$
Supplemental disclosure:			
Interest paid	$ 57,151	$ 91,151	$
Issuance of common stock for acquisitions of companies	$ --	$ 20,083	$
Liabilities assumed in acquisitions of companies	$ --	$ 134,429	$
Issuance of common stock for debt	$ --	$ 21,137	$
Issuance of common stock for redeemable preferred stock	$ --	$ --	$
Preferred stock dividend	$ 1,030	$ 2,146	$
Accretion of redeemable preferred stock	$ --	$ --	$

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

ARCH WIRELESS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Significant Accounting Policies

Organization--Arch Wireless, Inc. ("Arch" or the "Company") is a leading provider of wireless messaging and information services in the United States. Currently, Arch primarily provides traditional paging services, which enable subscribers to receive messages on their pagers composed entirely of numbers, such as a phone number, or on some pagers, numbers and letters, which enable subscribers to receive text messages. Arch has also begun to market and sell two-way wireless messaging services which enable subscribers to respond to messages or create and send wireless email messages to other wireless messaging devices (including pagers and personal digital assistants or PDAs) and to personal computers. Arch also offers wireless information services, such as stock quotes, news and other wireless information delivery services, voice mail, personalized greeting, message storage and retrieval, equipment loss protection and equipment maintenance. These services are commonly referred to as wireless messaging and information services.

Risks and Other Important Factors--Arch sustained net losses of $206.1 million, $285.6 million and $309.8 million for the years ended December 31, 1998, 1999 and 2000, respectively. Arch's loss from operations for the year ended December 31, 2000 was $245.1 million. In addition, at December 31, 2000,

Arch had an accumulated deficit of approximately $63.8 million and a deficit in working capital of $286.2 million although $175.2 million of current maturities of long term debt were repaid in February 2001, see Note 4 for description of the transaction. Arch's losses from operations and net losses are expected to continue for additional periods in the future. There can be no assurance that its operations will become profitable.

Arch's operations require the availability of substantial funds to finance the maintenance and growth of its existing messaging operations, its subscriber base and to enhance and expand its two-way messaging networks. At December 31, 2000, Arch had approximately $1,856.6 million outstanding under its credit facility, senior notes, capital leases and other long-term debt. Amounts available under its credit facility are subject to certain financial covenants and other restrictions. At December 31, 2000, Arch was in compliance with each of the covenants under its credit facility. Arch's ability to borrow additional amounts in the future, including amounts currently available under the credit facility is dependent on Arch's ability to comply with the provisions of its credit facility as well as the availability of financing in the capital markets. At December 31, 2000, Arch had $4.0 million of borrowings available under its credit facility.

In May 2001, Arch prepared a range of financial projections for the remainder of its current fiscal year. Arch believes that based on the lower range of its current projections, it may be in default of certain financial covenants of its credit facility as of September 30, 2001. Arch's ability to continue as a going concern is dependent upon its ability to comply with the terms of its debt agreements, to refinance its existing debt or obtain additional financing. Arch is currently in the process of restructuring its obligations. There can be no assurance that Arch will be successful in its efforts, which may have a material adverse affect on the solvency of Arch.

Arch is also subject to additional risks and uncertainties including, but not limited to, changes in technology, business integration, competition, government regulation and subscriber turnover.

Principles of Consolidation--The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates--The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition--Arch recognizes revenue under rental and service agreements with customers as the related services are performed. Maintenance revenues and related costs are recognized ratably over the respective terms of the agreements. Sales of equipment are recognized upon delivery. In some cases, Arch enters into transactions which include the sale of both products and services. The Company allocates the value of the arrangement to each element based on the residual method. Under the residual method, the fair value of the undelivered elements, typically services, is deferred and subsequently realized when earned. Commissions are recognized as an expense when incurred. On December 3, 1999, the Securities and Exchange Commission released Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements". SAB 101 provides additional guidance on the accounting for revenue recognition,

including both broad conceptual discussions as well as certain industry-specific guidance. Arch adopted SAB 101 in 2000, it did not have a material impact on its results of operations.

Cash Equivalents--Cash equivalents include short-term, interest-bearing instruments purchased with remaining maturities of three months or less.

Inventories--Inventories consist of new messaging devices, which are held primarily for resale. Inventories are stated at the lower of cost or market, with cost determined on a first-in, first-out basis.

Property and Equipment--Leased messaging devices sold or otherwise retired are removed from the accounts at their net book value using the first-in, first-out method. Property and equipment is stated at cost and is depreciated using the straight-line method over the following estimated useful lives:

Asset Classification	Estimated Useful Life
Buildings and improvements	20 Years
Leasehold improvements	Lease Term
Messaging devices	2 Years
Messaging and computer equipment	3-8 Years
Furniture and fixtures	5-8 Years
Vehicles	3 Years

Depreciation and amortization expense related to property and equipment totaled $101.1 million, $144.9 million and $211.8 million for the years ended December 31, 1998, 1999 and 2000, respectively.

On October 1, 2000, Arch revised the estimated depreciable life of its subscriber equipment from three to two years. The change in useful life resulted from Arch's expectations regarding future usage periods for subscriber devices considering current and projected technological advances and customer desires for new messaging technology. As a result of this change depreciation expense increased approximately $19.3 million in the fourth quarter of 2000.

Long-Lived Assets--In accordance with Statement of Financial Accounting Standards (SFAS) No. 121 "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets To Be Disposed Of" Arch evaluates the recoverability of its carrying value of the Company's long-lived assets and certain intangible assets based on estimated undiscounted cash flows to be generated from each of such assets compared to the original estimates used in measuring the assets. To the extent impairment is identified, Arch reduces the carrying value of such impaired assets to fair value based on estimated discounted future cash flows. To date, Arch has not had any such impairments.

Fair Value of Financial Instruments--Arch's financial instruments, as defined under SFAS No. 107 "Disclosures about Fair Value of Financial Instruments", include its cash, its debt financing and interest rate protection agreements. The fair value of cash is equal to the carrying value at December 31, 1999 and 2000. The fair value of the debt and interest rate protection agreements are included in Note 4.

Reverse Stock Split --On June 28, 1999, Arch effected a one for three reverse stock split. All share and per share data for all periods presented have been adjusted to give effect to this reverse split.

Derivative Instruments and Hedging Activities--In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities".

SFAS No. 133 requires that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value and that changes in the derivative's fair value be recognized in earnings. Arch adopted this standard effective January 1, 2001. The impact of adopting SFAS No. 133 was not material; however, adopting SFAS No. 133 could increase volatility in future earnings and other comprehensive income.

2. Acquisitions

On June 3, 1999 Arch completed its acquisition of MobileMedia Communications, Inc. for $671.1 million, consisting of cash paid of $516.6 million, including direct transaction costs, 4,781,656 shares of Arch common stock valued at $20.1 million and the assumption of liabilities of $134.4 million. The cash payments were financed through the issuance of approximately 36.2 million shares of Arch common stock (including approximately 5.4 million shares of Arch Class B common

stock) in a rights offering for $6.00 per share, the issuance of $147.0 million principal amount of 13 3/4% senior notes due 2008 (see Note 4) and additional borrowings under the Company's credit facility.

Arch issued to four unsecured creditors, who had agreed to purchase shares not purchased by other unsecured creditors in the rights offering, warrants to acquire 1,225,219 shares of its common stock on or before September 1, 2001 for $9.03 per share. The fair value of these warrants was determined to be immaterial.

The acquisition was accounted for as a purchase and the results of MobileMedia's operations have been included in the consolidated financial statements from the date of acquisition.

The liabilities assumed in the MobileMedia transaction, referred to above, include an unfavorable lease accrual related to MobileMedia's rentals on communications towers, which were in excess of market rental rates. This accrual amounted to approximately $52.9 million and is included in other long-term liabilities. This accrual is being amortized over the remaining lease term of 12 3/4 years. Concurrent with the consummation of the MobileMedia acquisition, Arch developed a plan to integrate the operations of MobileMedia. The liabilities assumed, referred to above, includes a $14.5 million restructuring accrual to cover the costs to eliminate redundant headcount and facilities in connection with the overall integration of operations (see Note 10).

On November 10, 2000, Arch completed its acquisition of Paging Network, Inc. (PageNet) for $1.35 billion consisting of 89,896,907 shares of Arch common stock valued at $263.4 million, the assumption of liabilities of $1.06 billion, including a deferred tax liability of $168.0 million arising in purchase accounting, and $27.6 million of transaction costs. In the merger, each outstanding share of PageNet's common stock was exchanged for 0.04796505 shares of Arch's common stock.

The merger was accompanied by a re-capitalization of Arch and PageNet involving the exchange of common stock for outstanding debt. Arch offered to exchange a total of 29,651,984 shares of its common stock for all of its outstanding 107/8% senior discount notes that were outstanding on November 7, 1999; Arch exchanged shares of its common stock for a significant portion of these discount notes (see Note 4).

In connection with the merger, 80.5% of the total equity of PageNet's subsidiary, Vast Solutions, Inc. was issued to PageNet's current stockholders

and noteholders and Arch holds the remaining 19.5% of Vast's equity.

The purchase price for these acquisitions was allocated based on the fair values of assets acquired and liabilities assumed. The purchase price allocation for PageNet is preliminary as of December 31, 2000, and the Company expects it to be finalized over the next three quarters. The acquisition was accounted for as a purchase, and the results of PageNet's operations have been included in the consolidated financial statements from the date of acquisition.

Concurrent with the consummation of the PageNet acquisition, Arch management developed a plan to integrate the operations of PageNet. The liabilities assumed in the PageNet transaction, referred to above, include a $76.0 million restructuring accrual related to the costs to eliminate redundant headcount and facilities in connection with the overall integration of operations (see Note 10).

The following unaudited pro forma summary presents the consolidated results of operations as if the acquisitions 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 acquisition 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 acquisitions been completed at the beginning of the period presented, or of results that may occur in the future.

	Year Ended December 31, 199 (unaudited and in per sha
Revenues	$ 1,803,519
Income (loss) before extraordinary item	(429,994)
Net income (loss)	(433,355)
Basic/diluted net income (loss) per common share	(2.55)

3. Intangible and Other Assets

Intangible and other assets, net of accumulated amortization, are composed of the following (in thousands):

	D 1999
Purchased Federal Communications Commission licenses	$ 354,
Purchased subscriber lists	239,
Goodwill	249,
Restricted cash	
Deferred financing costs	19,
Other	5,
	$ 867,

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Amortization expense related to intangible and other assets totaled $120.2 million, $164.6 million and $289.1 million for the years ended December 31, 1998, 1999 and 2000, respectively.

Included in purchased Federal Communications Commissions licenses are $175.0 million of 900 MHz SMR (Specialized Mobile Radio) licenses which are held for sale to Nextel Communications, Inc. (see Note 12).

During the fourth quarter of 2000, the Company reviewed the remaining lives of its intangible assets. Due to the nature of change in the traditional messaging industry and the new technologies for two-way messaging, effective October 1, 2000 the Company changed the remaining lives on purchased subscriber lists, purchased Federal Communications Commission licenses and goodwill which resulted from acquisitions prior to 2000 as follows:

Intangible Asset Classification	Book Valu December 2000
Purchased Federal Communications Commission licenses..........................	$ 276,
Purchased subscriber lists..	137,
Goodwill..	163,

These changes resulted in additional amortization expense in 2000 of $103.5 million.

The purchased subscriber list, acquired in conjunction with the acquisition of PageNet had a net book value at December 31, 2000 of $274.6 million and is being amortized over a three year period.

Deferred financing costs incurred in connection with Arch's credit agreements (see Note 4) are being amortized over periods not to exceed the terms of the related agreements. As credit agreements are amended and restated, unamortized deferred financing costs are written off as an extraordinary charge. During 1998, a charge of $1.7 million was recognized in connection with the closing of a new credit facility.

Other assets consist of a note receivable from Vast, contract rights, organizational and Federal Communications Commission application and development costs which are amortized using the straight-line method over their estimated useful lives, not exceeding ten years.

In April 1998, the Accounting Standards Executive Committee of the Financial Accounting Standards Board issued Statement of Position (SOP) 98-5 "Reporting on the Costs of Start-Up Activities". SOP 98-5 requires costs of start-up activities and organization costs to be expensed as incurred. Development and start up costs include nonrecurring, direct costs incurred in the development and expansion of messaging systems. Arch adopted SOP 98-5 effective January 1, 1999. Initial application of SOP 98-5 resulted in a $3.4 million charge, which was reported as the cumulative effect of a change in accounting principle. This charge represents the unamortized portion of start-up and organization costs, which had been deferred in prior years.

N-PCS Investments--In connection with Arch's May 1996 acquisition of Westlink Holdings, Inc., Arch acquired Westlink's 49.9% share of the capital stock of Benbow PCS Ventures, Inc. Benbow holds exclusive rights to a 50kHz

outbound/12.5kHz inbound narrowband PCS license in each of the five regions of the United States. Arch's investment in Benbow was accounted for under the equity method whereby Arch's share of Benbow's losses, since the acquisition

date of Westlink, are recognized in Arch's accompanying consolidated statements of operations under the caption equity in loss of affiliate.

In June 1999, Arch, Benbow and Benbow's controlling stockholder, agreed that:

- o the shareholders agreement, the management agreement and the employment agreement governing the establishment and operation of Benbow would be terminated;
- o Benbow would not make any further Federal Communications Commission payments and would not pursue construction of a narrowband PCS system;
- o Arch would not be obligated to fund Federal Communications Commission payments or construction of a narrowband PCS system by Benbow;
- o the parties would seek Federal Communications Commission approval of the forgiveness of Benbow's remaining payment obligations and the transfer of the controlling stockholder's equity interest in Benbow to Arch;
- o the closing of the transaction would occur on the earlier of January 23, 2001 or receipt of Federal Communications Commission approval;
- o Arch would pay the controlling stockholder, in installments, an aggregate amount of $3.5 million if the transaction closes before January 23, 2001 or $3.8 million if the transaction closes on January 23, 2001.

As a result of these arrangements, Benbow does not have any meaningful business operations and is unlikely to retain its narrowband PCS licenses. Therefore, Arch wrote off substantially all of its investment in Benbow in the amount of $8.2 million in June 1999. Arch accrued the payment to the controlling stockholder of $3.8 million and legal and other expenses of approximately $1.0 million, which are included in accrued expenses. In addition, Arch guaranteed Benbow's obligations in conjunction with Benbow's June 1998 purchase of the stock of PageCall. Since Benbow was unable to meet these obligations and Arch was required to settle the obligation in its stock, Arch recorded the issuance of $22.8 million of its common stock in additional paid-in capital and as a charge to operations in June 1999, to satisfy the obligation. In April 2000, Arch issued the stock to the shareholders of PageCall.

On November 8, 1994, CONXUS Communications, Inc. was successful in acquiring the rights to an interactive messaging license in five designated regions in the United States from the Federal Communications Commission narrowband wireless spectrum auction. On May 18, 1999, CONXUS filed for Chapter 11 protection in the U.S. Bankruptcy Court in Delaware, which case was converted to a case under Chapter 7 on August 17, 1999. In June 1999, Arch wrote-off its $6.5 million investment in CONXUS. On November 3, 1999, in order to document its disposition of any interest it has, if any, in CONXUS, Arch offered to transfer to CONXUS its shares in CONXUS for no consideration. The Chapter 7 trustee accepted this offer on December 9, 1999.

All of the above charges, totaling $42.3 million, are included in other expense in 1999 in the accompanying statement of operations.

4. Long-term Debt

Long-term debt consisted of the following (in thousands):

	December 31,

	1999		
	Carrying Value	Fair Value	Carrying
Senior Bank Debt	$ 438,940	$ 438,940	$ 1,135,
Canadian Bank Debt	--	--	63,
10 7/8% Senior Discount Notes due 2008	393,917	173,323	160,
9 1/2% Senior Notes due 2004	125,000	95,000	125,
14% Senior Notes due 2004	100,000	83,000	100,
12 3/4% Senior Notes due 2007	127,887	101,030	128,
13 3/4% Senior Notes due 2008	140,365	113,685	141,
Other	4,459	1,812	3,
	1,330,568		1,856,
Less--Current maturities	8,060		177,
Long-term debt	$ 1,322,508		$ 1,679,

Arch's debt financing primarily consists of senior bank debt and fixed rate senior notes. Arch's senior bank debt trades on a limited basis, therefore the fair value at December 31, 2000 was determined with reference to market quotes. Arch considers the fair value of the Canadian bank debt to be equal to the carrying value since the related facilities bear a current market rate of interest. Arch's fixed rate senior notes are traded publicly. The fair values of the fixed rate senior notes were based on current market quotes as of December 31, 1999 and 2000.

Senior Bank Debt--The Company, through its operating subsidiary, Arch Wireless Holdings, Inc. (AWHI) has a senior credit facility in the current amount of $1,298.8 million consisting of (i) a $157.5 million tranche A reducing revolving facility, (ii) a $95.0 million tranche B term loan, (iii) a $746.4 million tranche B-1 term loan which is recorded net of $159.7 million discount at December 31, 2000, and (iv) a $299.9 million tranche C term loan.

The tranche A facility began reducing on a quarterly basis on September 30, 2000 and will mature on June 30, 2005. The tranche B term loan began amortizing in quarterly installments on September 30, 2000, with an ultimate maturity date of June 30, 2005. The tranche B-1 term loan will be amortized in quarterly installments commencing March 31, 2001, with an ultimate maturity date of June 30, 2006. The tranche C term loan began amortizing in annual installments on December 31, 1999, with an ultimate maturity date of June 30, 2006. In addition to these scheduled reductions and repayments, AWHI is required to repay $110 million of senior bank debt no later than November 10, 2001, with such amount being applied on a pro rata basis to the tranche B, tranche B-1 and tranche C term loans.

AWHI's obligations under the senior credit facility are secured by its pledge of its interests in certain of its operating subsidiaries. The senior credit facility is guaranteed by Arch and certain of Arch's operating subsidiaries. Arch's guarantee is secured by a pledge of Arch's stock and notes in its wholly-owned subsidiary Arch Wireless Communications, Inc. (AWCI), and the guarantees of the operating subsidiaries are secured by a security interest in certain assets of those operating subsidiaries.

Borrowings under the senior credit facility bear interest based on a reference rate equal to either the agent bank's alternate base rate or LIBOR, in each case plus a margin (3.375% on tranche A, tranche B and tranche B-1 and

6.875% on tranche C at December 31, 2000) based on specified ratios of debt to annualized earnings before interest, income taxes, depreciation and amortization.

The senior credit facility requires payment of fees on the daily average amount available to be borrowed under the tranche A facility. These fees vary depending on specified ratios of total debt to annualized earnings before interest, income taxes, depreciation and amortization.

The senior credit facility requires that at least 50% of total AWCI debt, including outstanding borrowings under the senior credit facility, be subject to a fixed interest rate or interest rate protection agreements. Entering into interest rate protection agreements involves both the credit risk of dealing with counterparties and their ability to meet the terms of the contracts and interest rate risk. In the event of nonperformance by the counterparty to these interest rate protection agreements, Arch would be subject to the prevailing interest rates specified in the senior credit facility.

Arch had off-balance-sheet interest rate protection agreements consisting of an interest rate cap with a notional amount of $10.0 million, at December 31, 1999 and interest rate swaps with an aggregate notional amount of $400.0 million at December 31, 2000. The cost to terminate the outstanding interest rate cap and interest rate swaps at December 31, 1999 and 2000 would have been $4.5 million and $9.1 million, respectively.

Under the interest rate swap agreements, the Company will pay the difference between LIBOR and the fixed swap rate if the swap rate exceeds LIBOR, and the Company will receive the difference between LIBOR and the fixed swap rate if LIBOR exceeds the swap rate. Settlement occurs on the quarterly reset dates specified by the terms of the contracts. No interest rate swaps on the senior credit facility were outstanding at December 31, 1999. At December 31, 2000, the Company had a net payable of $501 thousand, on the interest rate swaps.

The senior credit facility contains restrictions that limit, among other things, Arch's operating subsidiaries' ability to:

- declare dividends or redeem or repurchase capital stock;
- prepay, redeem or purchase debt;
- incur liens and engage in sale/leaseback transactions;
- make loans and investments;
- incur indebtedness and contingent obligations;

- amend or otherwise alter debt instruments and other material agreements;
- engage in mergers, consolidations, acquisitions and asset sales;
- alter its lines of business or accounting methods.

In addition, the senior credit facility requires Arch and its subsidiaries to meet certain financial covenants, including ratios of earnings before interest, income taxes, depreciation and amortization to fixed charges, earnings before interest, income taxes, depreciation and amortization to debt service, earnings before interest, income taxes, depreciation and amortization to interest service and total indebtedness to earnings before interest, income taxes, depreciation and amortization. As of December 31, 2000, Arch and its operating subsidiaries were in compliance with the covenants of the senior credit facility.

As of December 31, 2000, $1,294.8 million was outstanding and $4.0 million was available under the senior credit facility. At December 31, 2000, such advances bore interest at an average annual rate of 9.73%.

Canadian Bank Debt--The Company, through its Canadian operating subsidiary,

Paging Network Canada Holdings, Inc., has two credit agreements which provide for total borrowings of approximately $72.8 million. As of December 31, 2000, approximately $63.4 million of borrowings were outstanding under these credit facilities. Additional borrowings are available under these facilities, provided that minimum collateral requirements and certain financial conditions are met. Maximum borrowing that may be outstanding under the credit facilities are permanently reduced beginning on March 31, 2002, by the following amounts: 2002 - $0.7 million; 2003 - $4.0 million and 2004 - $58.7 million. Both credit agreements expire on December 31, 2004. Borrowings under the agreements bear interest based on the agent bank's prime rate plus a margin based on specified ratios of debt to annualized earnings before interest, income taxes, depreciation and amortization.

The two Canadian credit agreements are secured by $35.3 million of cash collateral which is included in other assets and a general security interest in all the assets of the Canadian subsidiary. Any liabilities of the Canadian subsidiary, including borrowings under its two credit agreements, have no recourse to Arch or any of its other assets.

Senior Notes--Interest on Arch's 107/8% senior discount notes due 2008 does not accrue prior to March 15, 2001. Commencing September 15, 2001, interest on the senior discount notes is payable semi-annually at an annual rate of 107/8%. The maturity value of the senior discount notes outstanding at December 31, 2000 was $164.2 million.

Interest on AWCI's 13 3/4% senior notes due 2008, 12 3/4% senior notes due 2007, 14% senior notes due 2004 and 9 1/2% senior notes due 2004 (collectively, the "Senior Notes") is payable semiannually. The senior discount notes and Senior Notes contain certain restrictive and financial covenants, which, among other things, limit the ability of Arch or AWCI to:

- incur additional indebtedness;
- pay dividends;
- grant liens on its assets;
- sell assets;
- enter into transactions with related parties;
- merge, consolidate or transfer substantially all of its assets;
- redeem capital stock or subordinated debt;
- make certain investments.

The Senior Notes are generally unsecured, however, the 9 1/2% Notes and 14% Notes are secured on a pari passu basis with the lenders under the senior credit facility in the assets of certain subsidiaries of AWHI.

During 1998, AWCI entered into interest rate swap agreements in connection with the AWCI 14% notes. Under the interest rate swap agreements, Arch effectively reduced the interest rate on the AWCI 14% notes from 14% to the fixed swap rate of 9.45%. As of December 31, 1999, one of these interest rate swap agreements remained outstanding with a notional amount of $107 million. In December 2000, the Company restructured the $107 million interest rate swap. Under the terms of the restructured interest rate swap between AWHI and the counterparty, the notional amount was increased to $350 million and the fixed swap rate was reduced to 7.1% (see Senior Bank Debt). In the event of nonperformance by the counterparty to these interest rate protection agreements, Arch would be subject to the 14% interest rate specified on the notes. As of December 31, 2000, Arch had received $5.2 million in excess of the amounts paid under the swap agreements, which is included in other long-term liabilities in the accompanying balance sheet.

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Convertible Subordinated Debentures--At December 31, 2000, $946,000 of Arch

convertible subordinated debentures were outstanding and included in long-term debt. The debentures are convertible at their principal amount into shares of Arch common stock at any time prior to redemption or maturity at an initial conversion price of $50.25 per share, subject to adjustment, and bear interest at a rate of 6 3/4% per annum, payable semiannually on June 1 and December 1.

Debt Exchanged for Equity--In October 1999, Arch completed transactions with four bondholders in which Arch issued an aggregate of 3,136,665 shares of Arch common stock and warrants to purchase 540,487 shares of Arch common stock for $9.03 per share in exchange for $25.2 million accreted value of debt securities. Under two of the exchange agreements, Arch issued 809,545 shares of Arch common stock and warrants to purchase 540,487 shares of Arch common stock for $9.03 per share in exchange for $8.9 million principal amount of Arch convertible debentures. Arch recorded $2.9 million of non-cash interest expense in conjunction with these transactions. Under the remaining exchange agreements, Arch issued 2,327,120 shares of Arch common stock in exchange for $16.3 million accreted value ($19.0 million maturity value) of its senior discount notes. Arch recorded an extraordinary gain of $7.0 million on the early extinguishment of debt as a result of these transactions.

In 2000, Arch issued 285,973 shares of Arch common stock in exchange for $3.5 million principal amount of Arch convertible debentures. Arch also issued 12,182,659 shares of Arch common stock in exchange for $165.3 million accreted value ($184.2 million maturity value) of its senior discount notes. Arch recorded an extraordinary gain of $14.2 million on the early extinguishment of debt as a result of these transactions.

On May 10, 2000, Arch announced it had completed an agreement with Resurgence Asset Management L.L.C. for the exchange of $91.1 million accreted value ($100.0 million maturity value) of senior discount notes held by various Resurgence entities for 1,000,000 shares of a new class of Arch's preferred stock called Series D preferred stock. The Series D preferred stock was converted into an aggregate of 6,613,180 shares of common stock upon completion of Arch's merger with PageNet.

Arch recorded an extraordinary gain of $44.4 million on the early extinguishment of debt as a result of this transaction based on the difference between the carrying value of the exchanged debt, including deferred financing fees, and the fair value of the preferred stock issued. Arch recorded $4.2 million of accretion on this preferred stock prior to its conversion to common stock on November 10, 2000.

Maturities of Debt--Scheduled long-term debt maturities at December 31, 2000 are as follows (in thousands):

Year Ending December 31,
2001..
2002..
2003..
2004..
2005..
Thereafter..
Less--Discount on assumed bank debt...

In February 2001, Arch used a portion of the proceeds received in the Nextel transaction (see Note 12) to voluntarily prepay $175.2 million of amortization scheduled to occur under its senior credit facility during 2001. Following this transaction, amounts outstanding under the senior credit facility totaled $1,119.6 million and consisted of (i) a $122.5 million tranche A reducing revolving facility, (ii) a $64.1 million tranche B term loan, (iii) a $662.7 million tranche B-1 term loan, and (iv) a 270.3 million tranche C term loan. Mandatory reductions of the tranche A facility and amortization of the tranche B, tranche B-1 and tranche C term loans will commence on March 31, 2002 in accordance with the terms of the senior credit facility.

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5. Redeemable Preferred Stock and Stockholders' Equity

Redeemable Series C Cumulative Convertible Preferred Stock--On June 29, 1998, two partnerships managed by Sandler Capital Management Company, Inc., an investment management firm, together with certain other private investors, made an equity investment in Arch of $25.0 million in the form of Series C Convertible Preferred Stock of Arch. The Series C Preferred Stock: (i) is convertible into Arch common stock at a conversion price of $16.38 per share, subject to certain adjustments; (ii) bears dividends at an annual rate of 8.0%, (A) payable quarterly in cash or, at Arch's option, through the issuance of shares of Arch common stock valued at 95% of the then prevailing market price or (B) if not paid quarterly, accumulating and payable upon redemption or conversion of the Series C Preferred Stock or liquidation of Arch; (iii) permits the holders after seven years to require Arch, at Arch's option, to redeem the Series C Preferred Stock for cash or convert such shares into Arch common stock valued at 95% of the then prevailing market price of Arch common stock, so long as the common stock remains listed on a national securities exchange; (iv) is subject to redemption for cash or conversion into Arch common stock at Arch's option in certain circumstances; (v) in the event of a "Change of Control" as defined in the indenture governing the senior discount notes, requires Arch, at its option, to redeem the Series C Preferred Stock for cash or convert such shares into Arch common stock valued at 95% of the then prevailing market price of Arch common stock, with such cash redemption or conversion being at a price equal to 105% of the sum of the original purchase price plus accumulated dividends; (vi) limits certain mergers or asset sales by Arch; (vii) so long as at least 50% of the Series C Preferred Stock remains outstanding, limits the incurrence of indebtedness and "restricted payments" in the same manner as contained in the senior discount notes indenture; and (viii) has certain voting and preemptive rights. Upon an event of redemption or conversion, Arch currently intends to convert such Series C Preferred Stock into shares of Arch common stock.

Class B Common Stock--Shares of Arch Class B common stock are identical in all respects to shares of Arch common stock, except that a holder of Class B common stock is not entitled to vote in the election of directors and is entitled to 1/100th vote per share on all other matters voted on by Arch stockholders. Shares of class B common stock will automatically convert into an identical number of shares of common stock upon transfer of Class B common shares to any person or entity, other than any person or entity that received shares of Class B common stock in the initial distribution of those shares or any affiliate of such person or entity. During 1999 and 2000, 1,392,097 and 1,976,219 shares of Class B common stock were converted to common stock.

Warrants--In connection with the acquisition of MobileMedia and certain debt

for equity exchanges previously discussed, Arch issued approximately 50.0 million warrants to purchase Arch common stock. Each warrant represents the right to purchase one-third of one share of Arch common stock at an exercise price of $3.01 ($9.03 per share). The warrants expire on September 1, 2001.

Stock Options--Arch has stock option plans, which provide for the grant of incentive and nonqualified stock options to key employees, directors and consultants to purchase Arch common stock. Incentive stock options are granted at exercise prices not less than the fair market value on the date of grant. Options generally vest over a five-year period from the date of grant. However, in certain circumstances, options may be immediately exercisable in full. Options generally have a duration of 10 years. The plans provide for the granting of options to purchase a total of 9,131,865 shares of common stock.

As a result of the PageNet merger, each outstanding option to purchase PageNet common stock became fully exercisable and vested and was converted into an option to purchase the same number of shares of Arch common stock that the holder of the option would have received in the merger if the holder had exercised the option immediately prior to the merger.

On December 16, 1997, the Compensation Committee of the board of directors of Arch authorized the Company to offer an election to its employees who had outstanding options at a price greater than $15.19 to cancel such options and accept new options at a lower price. In January 1998, as a result of this election by certain of its employees, the Company canceled 361,072 options with exercise prices ranging from $17.82 to $61.88 and granted the same number of new options with an exercise price of $15.19 per share, the fair market value of the stock on December 16, 1997.

The following table summarizes the activity under Arch's stock option plans for the periods presented:

Options outstanding at December 31, 1997
Granted
Exercised
Terminated
Options outstanding at December 31, 1998
Granted
Exercised
Terminated
Options outstanding at December 31, 1999
Granted
Assumed in merger
Exercised
Terminated
Options outstanding at December 31, 2000

Options exercisable at December 31, 2000.. ==

==

The following table summarizes the options outstanding and options exercisable by price range at December 31, 2000:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	W E
$ 0.97--$ 0.97..............	2,393,000	9.95	$ 0.97	--	
2.47-- 6.06..............	3,561,050	9.36	6.05	38,000	
6.09-- 15.19..............	1,576,026	8.03	9.71	524,049	
17.12-- 127.70..............	165,814	7.95	59.87	163,425	
127.70-- 322.18..............	251,102	6.65	211.55	251,102	
$ 0.97--$322.18..............	7,946,992	9.16	$ 12.86	976,576	

Employee Stock Purchase Plans--The Company's employee stock purchase plans allow eligible employees the right to purchase common stock, through payroll deductions not exceeding 10% of their compensation, at the lower of 85% of the market price at the beginning or the end of each six-month offering period. During 1998, 1999 and 2000, 85,996, 34,217 and 459,133 shares were issued at an average price per share of $6.39, $5.60 and $1.25, respectively. At December 31, 2000, 6,650 shares are available for future issuance.

Accounting for Stock-Based Compensation--Arch accounts for its stock option and stock purchase plans under APB Opinion No. 25 "Accounting for Stock Issued to Employees". Since all options have been issued at a grant price equal to fair market value, no compensation cost has been recognized in the statements of operations. Had compensation cost for these plans been determined consistent with SFAS No. 123, "Accounting for Stock-Based Compensation", Arch's net income (loss) and income (loss) per share would have been increased to the following pro forma amounts:

		Years Ended 1998	1
		(in thousands, excep	
Net income (loss):	As reported................	$(206,051)	$(28
	Pro forma..................	(208,065)	(28
Basic net income (loss) per common share:	As reported................	(29.59)	
	Pro forma..................	(29.88)	

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. In computing these pro forma amounts, Arch has assumed risk-free interest rates of 4.5% - 6%, an expected life of 5 years, an expected dividend yield of zero and an expected volatility of 50% - 93%.

The weighted average fair values (computed consistent with SFAS No. 123) of options granted under all plans in 1998, 1999 and 2000 were $8.34, $5.56 and $3.01, respectively. The weighted average fair value of shares sold under the employee stock purchase plans in 1998, 1999 and 2000 was $5.64, $3.13 and $2.72, respectively.

Deferred Compensation Plan for Nonemployee Directors--Under the deferred compensation plan for nonemployee directors, outside directors may elect to defer, for a specified period of time, receipt of some or all of the annual and meeting fees which would otherwise be payable for service as a director. A portion of the deferred compensation may be converted into phantom stock units, at the election of the director. The number of phantom stock units granted equals the amount of compensation to be deferred as phantom stock divided by the fair value of Arch common stock on the date the compensation would have otherwise been paid. At the end of the deferral period, the phantom stock units will be converted to cash based on the fair market value of Arch common stock on the date of distribution. Deferred compensation is expensed when earned. Changes in the value of the phantom stock units are recorded as income/expense based on the fair market value of Arch common stock.

Stockholders Rights Plan--In October 1995, Arch's board of directors adopted a stockholders rights plan and declared a dividend of one preferred stock purchase right for each outstanding share of common stock to stockholders of record at the close of business on October 25, 1995. Each Right entitles the registered holder to purchase from Arch one one-thousandth of a share of Series B Junior Participating Preferred Stock, at a cash purchase price of $150, subject to adjustment. Pursuant to the Plan, the Rights automatically attach to and trade together with each share of common stock. The Rights will not be exercisable or transferable separately from the shares of common stock to which they are attached until the occurrence of certain events. The Rights will expire on October 25, 2005, unless earlier redeemed or exchanged by Arch in accordance with the Plan.

6. Income Taxes

Arch accounts for income taxes under the provisions of SFAS No. 109 "Accounting for Income Taxes". Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, given the provisions of enacted laws.

The components of the net deferred tax asset (liability) recognized in the accompanying consolidated balance sheets at December 31, 1999 and 2000 are as follows (in thousands):

Deferred tax assets..	
Deferred tax liabilities..	
Valuation allowance..	

The approximate effect of each type of temporary difference and carryforward

at December 31, 1999 and 2000 is summarized as follows (in thousands):

Net operating losses..
Intangibles and other assets..
Depreciation of property and equipment..
Accruals and reserves...
Valuation allowance...

The effective income tax rate differs from the statutory federal tax rate primarily due to the nondeductibility of goodwill amortization and the inability to recognize the benefit of current net operating loss (NOL) carryforwards. The NOL carryforwards expire at various dates through 2015. The Internal Revenue Code contains provisions that may limit the NOL carryforwards available to be used in any given year if certain events occur, including significant changes in ownership, as defined. The Company has experienced such changes in ownership and as a result the utilization of net operation losses in any one year are significantly limited for income tax purposes.

The Company has established a valuation reserve against its net deferred tax asset until it becomes more likely than not that this asset will be realized in the foreseeable future. A portion of the valuation allowance at December 31, 2000, will be recorded against goodwill when and if realized.

7. Commitments and Contingencies

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

Arch has operating leases for office and transmitting sites with lease terms ranging from one month to approximately fifty years. In most cases, Arch expects that, in the normal course of business, leases will be renewed or replaced by other leases.

Future minimum lease payments under noncancellable operating leases at December 31, 2000 are as follows (in thousands):

Year Ending December 31,
2001..
2002..
2003..
2004..
2005..
Thereafter..
Total...

Total rent expense under operating leases for the years ended December 31, 1998, 1999 and 2000 approximated $19.6 million, $48.3 million and $81.2 million, respectively.

8. Employee Benefit Plans

Retirement Savings Plans--Arch has retirement savings plans, qualifying under Section 401(k) of the Internal Revenue Code covering eligible employees, as defined. Under the plans, a participant may elect to defer receipt of a stated percentage of the compensation which would otherwise be payable to the participant for any plan year (the deferred amount) provided, however, that the deferred amount shall not exceed the maximum amount permitted under Section 401(k) of the Internal Revenue Code. The plans provide for employer matching contributions. Matching contributions for the years ended December 31, 1998, 1999 and 2000 approximated $278,000, $960,000 and $1.2 million, respectively.

9. Long-term Liabilities

During 1998 and 1999, Arch sold communications towers, real estate, site management contracts and/or leasehold interests involving 133 sites in 22 states and leased space on the towers on which it currently operates communications equipment to service its own messaging network. Net proceeds from the sales were approximately $33.4 million, Arch used the net proceeds to repay indebtedness under its credit facility.

Arch entered into options to repurchase each site and until this continuing involvement ends the gain on the sale of the tower sites is deferred and included in other long-term liabilities. At December 31, 2000, approximately $20.2 million of the gain is deferred and approximately $1.9 million, $1.9 million and $2.0 million of this gain has been recognized in the statement of operations and is included in operating income for each of the years ended December 31, 1998, 1999 and 2000, respectively.

Also included in other long-term liabilities is an unfavorable lease accrual related to MobileMedia's rentals on communications towers which were in excess of market rental rates (see Note 2). At December 31, 2000, the remaining balance of this accrual was approximately $49.1 million. This accrual is being amortized over the term of the leases with approximately 12 3/4 years remaining at December 31, 2000.

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10. Restructuring Reserves

Divisional reorganization--In June 1998, Arch's board of directors approved a reorganization of Arch's operations. This reorganization consisted of the consolidation of certain regional administrative support functions, such as customer service, collections, inventory and billing, to reduce redundancy and take advantage of various operating efficiencies. Arch recognized a restructuring charge of $14.7 million in 1998 related to the divisional reorganization.

In conjunction with the completion of the MobileMedia merger in June 1999, the timing and implementation of the divisional reorganization was reviewed by Arch management in the context of the combined company integration plan. Pursuant to this review, the Company identified certain of its facilities and

network leases that would not be utilized following the MobileMedia integration, resulting in an additional charge of $2.6 million. This charge was offset by $4.8 million of reductions to previously provided severance and other costs in conjunction with the divisional reorganization.

During the third quarter of 1999, Arch's board of directors approved an integration plan to eliminate redundant headcount, facilities and tower sites of MobileMedia in connection with the completion of the MobileMedia acquisition. The plan anticipated a net reduction of approximately 10% of MobileMedia's workforce and the closing of certain facilities and tower sites, which resulted in the establishment a $14.5 million acquisition reserve which was included in the MobileMedia purchase price allocation. The initial acquisition reserve consisted of approximately (i) $6.1 million for employee severance, (ii) $7.9 million for lease obligations and terminations and (iii) $0.5 million of other costs.

During 2000, Arch completed the actions under the divisional reorganization and the MobileMedia integration plans. Arch reevaluated the reserves and determined that each of the reserve balances were adequate to cover the remaining cash payments which consist primarily of lease costs.

On November 10, 2000, Arch completed its acquisition of PageNet and management commenced the development of plans to integrate its operations. In conjunction with the integration plans, the Company has identified redundant headcount and certain of its facilities that would not be utilized following the PageNet integration resulting in an additional charge of $5.4 million.

The provision for lease obligations and terminations relates primarily to future lease commitments on local, regional and divisional office facilities that will be closed as part of this reorganization. The charge represents future lease obligations on such leases past the dates the offices will be closed, or for certain leases, the cost of terminating the leases prior to their scheduled expiration. Cash payments on the leases and lease terminations will occur over the remaining lease terms, the majority of which expire prior to 2003.

Through the elimination of certain local and regional administrative operations, the consolidation of certain support functions and the integration of MobileMedia and PageNet operations, the Company will eliminate approximately 1,100 net positions formerly held by Arch and MobileMedia personnel. The majority of the positions, which have been or will be eliminated are related to management, administrative, customer service, collections, inventory and billing functions. As of December 31, 1999 and 2000, 588 and 951 employees, respectively, had been terminated due to the divisional reorganization and the MobileMedia and PageNet integrations. The remaining severance and benefits costs will be paid during 2001.

The Company's restructuring activity as of December 31, 2000 is as follows (in thousands):

	Balance at December 31, 1999	PageNet-Related Provision	Amoun Pai
Severance costs	$ 3,708	$ 1,725	$ 2,
Lease obligation costs	13,026	3,700	5,
Other costs	377	--	
Total	$ 17,111	$ 5,425	$ 8,

PageNet Acquisition Reserve--On November 10, 2000, Arch completed its acquisition of PageNet and commenced the development of plans to integrate its operations. During the fourth quarter of 2000, Arch identified redundant PageNet headcount and facilities in connection with the overall integration of operations. It is expected that the integration activity relating to the PageNet merger, will be completed by December 31, 2001.

In connection with the PageNet acquisition, Arch anticipates a net reduction of approximately 50% of PageNet's workforce and the closing of certain facilities and tower sites. This resulted in the establishment a $76 million acquisition reserve which is included as part of the PageNet purchase price allocation. The initial acquisition reserve consisted of approximately (i) $66.1 million for employee severance, (ii) $9.4 million for lease obligations and terminations and (iii) $0.5 million of other costs.

The provision for lease obligations and terminations relates primarily to future lease commitments on local, regional and divisional office facilities that will be closed as part of this reorganization. The charge represents future lease obligations on such leases past the dates the offices will be closed, or for certain leases, the cost of terminating the leases prior to their scheduled expiration. Cash payments on the leases and lease terminations will occur over the remaining lease terms, the majority of which expire prior to 2005.

Through the elimination of redundant management, administrative, customer service, collections, finance and inventory functions, the Company will eliminate approximately 2,000 positions. As of December 31, 2000, 302 former PageNet employees had been terminated.

The PageNet acquisition reserve activity as of December 31, 2000 was as follows (in thousands):

	Reserve Initially Established	Am
Severance costs	$ 66,100	
Lease obligation costs	9,400	
Other costs	500	
Total	$ 76,000	

11. Segment Reporting

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

Each of these segments incur, and are charged, direct costs associated with

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

The Company did not begin to market and sell its two-way messaging products on a commercial scale until August 2000. The Company's Canadian subsidiary was acquired in November 2000 in the PageNet acquisition. Prior to 2000, substantially all of the Company's operations were traditional paging operations. The following table presents segment financial information related to the Company's segments as of and for the year ended December 31, 2000 (in thousands):

	Traditional Paging Operations	Two-way Messaging Operations	Internation Operation
Revenues..................................	$ 838,425	$ 9,383	$ 3,27
Depreciation and amortization expense......	488,048	9,459	3,32
Operating income (loss)....................	(216,591)	(25,709)	(2,83
Adjusted EBITDA(1).........................	276,882	(16,250)	48
Total assets...............................	1,981,156	265,137	63,31
Capital expenditures.......................	111,047	28,115	1,12

(1) Adjusted earnings before interest, income taxes, depreciation and amortization, as determined by Arch, does not reflect interest, income taxes, depreciation and amortization, restructuring charges, equity in loss of affiliate and extraordinary items; consequently adjusted earnings before interest, income taxes, depreciation and amortization may not necessarily be comparable to similarly titled data of other wireless messaging companies. Earnings before interest, income taxes, depreciation and amortization should

not be construed as an alternative to operating income or cash flows from operating activities as determined in accordance with generally accepted accounting principles or as a measure of liquidity. Amounts reflected as earnings before interest, income taxes, depreciation and amortization or adjusted earnings before interest, income taxes, depreciation and amortization are not necessarily available for discretionary use as a result of restrictions imposed by the terms of existing indebtedness or limitations imposed by applicable law upon the payment of dividends or distributions among other things.

12. Subsequent Events

Nextel Agreement--In January 2001, Arch agreed to sell its 900 MHz SMR (Specialized Mobile Radio) licenses to Nextel Communications, Inc. Nextel will acquire the licenses for an aggregate purchase price of $175 million, and invest $75 million in a new equity issue, Arch Series F 12% Redeemable Cumulative Junior Preferred Stock. In February 2001, Nextel advanced $250 million in the form of loans to a newly created, stand-alone Arch subsidiary that will hold the spectrum licenses until the transfers are approved. The new Arch subsidiary will not be permitted to engage in any business other than ownership and maintenance of the spectrum licenses and will not have any liability or obligation with respect to any of the debt obligations of Arch and its subsidiaries. Upon transfer of the spectrum licenses to Nextel, the loan obligations will be satisfied and $75 million of the loans will be converted into Arch series F 12% Redeemable Cumulative Junior Preferred Stock. Arch acquired the SMR licenses as

part of its acquisition of PageNet in November 2000. In purchase accounting the licenses were recorded at their fair value of $175.0 million therefore no gains or losses resulting from changes in the carrying amounts of assets to be disposed of are included in Arch's statement of operations. No amortization has been recorded on the licenses. Revenues and operating expenses related to the SMR operation included in the statement of operations are immaterial.

Debt Exchanged for Equity--In the first quarter of 2001, Arch issued 8,793,350 shares of Arch common stock in exchange for $26.3 million accreted value ($26.5 million maturity value) of its senior discount notes. Arch will record an extraordinary gain of approximately $15.3 million on the early extinguishment of debt as a result of these transactions.

13. Quarterly Financial Results (Unaudited)

Quarterly financial information for the years ended December 31, 1999 and 2000 is summarized below (in thousands, except per share amounts):

	First Quarter	Second Quarter(1)
YEAR ENDED DECEMBER 31, 1999:		
Revenues	$ 100,888	$ 133,493
Operating income (loss)	(16,086)	(34,546)
Income (loss) before extraordinary item and accounting change	(45,763)	(110,728)
Extraordinary gain (2)	--	--
Cumulative effect of accounting change	(3,361)	--
Net income (loss)	(49,124)	(110,728)
Basic/diluted net income (loss) per common share:		
Income (loss) before extraordinary item and accounting change	(6.54)	(5.65)
Extraordinary gain	--	--
Cumulative effect of accounting change	(0.48)	--
Net income (loss)	(7.02)	(5.65)

	First Quarter	Second Quarter
YEAR ENDED DECEMBER 31, 2000:		
Revenues	$ 189,995	$ 187,852
Operating income (loss)	(27,686)	(27,945)
Income (loss) before extraordinary item	(70,192)	(64,148)
Extraordinary gain (2)	7,615	44,436
Net income (loss)	(62,577)	(19,712)
Basic/diluted net income (loss) per common share:		
Income (loss) before extraordinary item	(1.28)	(1.01)
Extraordinary gain	0.14	0.68
Net income (loss)	(1.14)	(0.33)

(1) On June 3, 1999 Arch completed its acquisition of MobileMedia (see Note 2). In June 1999, Arch wrote-off $42.3 million of N-PCS investments (see Note 3).

(2) Extraordinary gains in all periods are the result of early extinguishment of debt (see Note 4).

(3) On November 10, 2000 Arch completed its acquisition of PageNet (see Note 2). Arch changed the remaining lives certain intangible assets which resulted in $103.5 million of additional amortization expense in the fourth quarter of 2000 (see Note 3). On October 1, 2000 Arch revised the estimated depreciable life of its subscriber equipment which resulted in approximately $19.3 million of additional depreciation expense (see Note 1).

EXHIBIT INDEX

23.1* Consent of Arthur Andersen LLP.

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* Filed herewith.