



**Public Interest Statement and Description of Transaction**

**I. BACKGROUND**

Metrocall Holdings, Inc. ("Metrocall") and Arch Wireless, Inc. ("Arch") are wireless companies traditionally focused on paging services. Demand for these services has declined significantly, by roughly 75 percent over the past four years, and both companies continue to face an exodus of paging customers to competing technologies. As a result, both companies filed for reorganization in bankruptcy in 2002. In order to remain viable in the face of these enormous challenges, Arch and Metrocall have determined to combine their operations. The combined company will be able to eliminate a substantial amount of redundant network infrastructure as well as other duplicative overhead, thereby reducing costs, and it will be able to capitalize on the complementary strengths of the two businesses. With the benefit of these efficiencies and synergies, the combined entity will be better positioned to continue serving current and prospective customers for a longer period of time in the increasingly competitive marketplace for mobile communications. Grant of this application is accordingly in the public interest.

**A. The Parties.**

Arch provides facilities-based local, regional, and nationwide paging and messaging services in all 50 states, plus the District of Columbia, U.S. Virgin Islands, and Puerto Rico. Arch offers several types of services: tone-only paging, numeric paging, alphanumeric paging, guaranteed messaging, and two-way interactive messaging. Arch currently has approximately 4.4 million paging/messaging units in service ("UIS").

Metrocall provides a broad variety of mobile services. On a resale basis, Metrocall offers mobile telephony, mobile e-mail, Wi-Fi access, and other services. Metrocall also provides facilities-based local, regional, and nationwide paging/messaging services in all 50 states, plus the District of Columbia. Metrocall's services include numeric paging, alphanumeric paging, two-way interactive advanced messaging, and wireless e-mail solutions. Metrocall's System Applications Division also provides proprietary and third-party software and hardware solutions that allow customers to integrate a variety of telecommunications and information services. As of December 31, 2003, Metrocall had approximately 3.5 million paging/messaging UIS as part of its facilities-based offerings.

The combined company will continue to provide paging and messaging services on a local, regional, and national basis, to its approximately 7.9 million customers, and will continue to offer the wide variety of mobile services currently in Arch's and Metrocall's respective portfolios.

**B. The Paging Sector.**

Paging has declined substantially since its peak five years ago. After growing steadily through the 1980s and 1990s, paging use peaked in 1999 at an estimated 45.8 million to 52.5 million UIS.<sup>1</sup> The following year, subscribership declined to 45.3 million UIS.<sup>2</sup> From there, the industry lost well over half its units in one year, declining by mid-

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<sup>1</sup> Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993, Fifth Report, FCC 00-289 (rel. Aug. 18, 2000) ("Fifth Report") at 56 (citing two estimates: 45.8 million and 52.5 million).

<sup>2</sup> Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993, Sixth Report, FCC 01-192 (rel. Jul. 17, 2001) ("Sixth Report") at 53.

2001 to 18 million UIS.<sup>3</sup> The industry lost nearly a quarter of its remaining units in 2002, declining to 14.1 million.<sup>4</sup>

An industry trade publication estimates that as of late 2003, there were only about 12 million paging UIS in the entire U.S.<sup>5</sup> Arch's research shows the number of paging UIS fell to an estimated 12.8 million in 2003. Paging carriers continue to lose thousands of units every day. If or when the number of paging UIS levels off, it will be at a number far below the industry peak in 1999. The roughly 12 million paging UIS in 2003 represents a net loss of approximately 75 percent from the industry peak of 45.8-52.5 million UIS.

Because of this dramatic loss in business, the industry possesses a vast overabundance of capacity. To the extent that paging carriers believed at the peak of the market in 1999 that a certain level of output capacity was necessary, or would be necessary in the foreseeable future, it is now clear that considerably less than that output level is required. And because carriers built networks that were capable of carrying the subscriber loads that existed (or were predicted) in 1999, those carriers now possess a vast overabundance of paging capacity.

**C. The Transaction.**

1. Description of Transaction.

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<sup>3</sup> Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993, Seventh Report, FCC 02-179 (rel. Jul. 3, 2002) at 66 ("Seventh Report").

<sup>4</sup> Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993, Eighth Report, WT Dkt No. 02-379, FCC 03-150 (rel. Jul. 14 2003) at ¶ 19. ("Eighth Report").

<sup>5</sup> See "Why Carriers Must Push New Services, Subscriber Gear," Wireless Data News (January 30, 2004)

**Arch-Metrocall Transfer of Control**  
**Exhibit One, Page 4 of 44**

The proposed transaction will be a merger between the operations of Arch and Metrocall, accomplished through the creation of a new holding company ("Newco").<sup>6</sup> The shareholders of Arch will exchange their existing shares for shares in Newco. The shareholders of Metrocall will have a cash election by which they may receive some cash and some shares of Newco in exchange for their existing holdings. Newco is a Delaware corporation, with two wholly-owned subsidiaries created to effectuate the merger. Metrocall and Arch will each be merged with one of Newco's subsidiaries such that Metrocall and Arch will become subsidiaries of Newco. Metrocall's and Arch's existing subsidiaries, including their license subsidiaries, will become indirect wholly-owned subsidiaries of Newco, and the license subsidiaries will retain their respective FCC licenses.<sup>7</sup> It is anticipated that shortly after consummation of the merger, Arch and Metrocall will be rolled up into Newco, leaving their respective subsidiaries as direct subsidiaries of Newco. The organizational charts below depict the companies' current and post-merger structure.

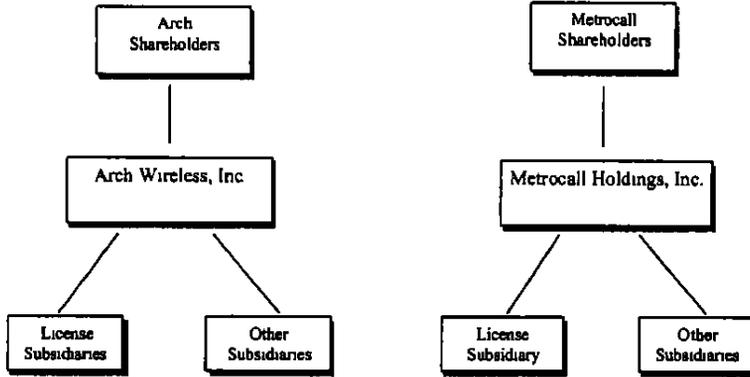
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<sup>6</sup> The name of the company will be chosen sometime prior to the closing of this merger; it has been incorporated under the name Wizards-Patriots Holdings, Inc.

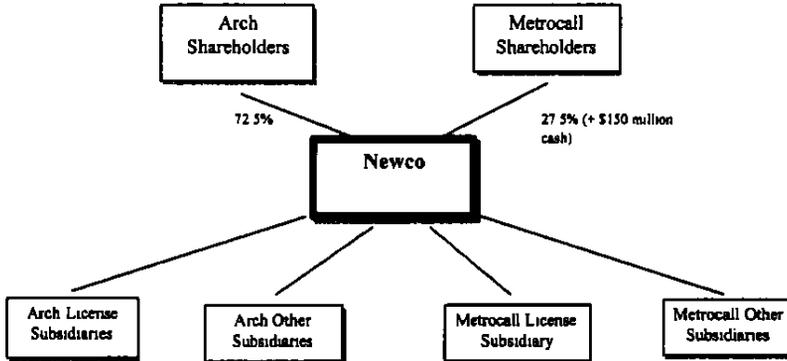
<sup>7</sup> Likewise, Arch's 50 percent interest in Nationwide 929.8875 LLC, a license-holding joint venture with Verizon Wireless, will be indirectly held by Newco.

**Arch-Metrocall Transfer of Control**  
**Exhibit One, Page 5 of 44**

Current



After



Arch's existing shareholders will own approximately 72.5% of Newco; Metrocall's shareholders will own the remaining 27.5%.<sup>8</sup> No shareholder of Arch currently holds 10% or more of that company's equity, and no Arch shareholder will own 10% or more of Newco. None of Metrocall's shareholders will own 10% or more of Newco.<sup>9</sup> Moreover, the companies are not aware of any party that has significant holdings in both Arch and Metrocall. Consequently, it is anticipated that there will be no shareholders with an interest of 10% or more in the post-merger company.<sup>10</sup>

Newco's board will initially be composed of four members of the former Arch board, four members of the former Metrocall board, and one individual who is now a substantial shareholder of Arch, each serving one-year terms. There is no voting rights agreement or any other extraordinary restriction on the board's composition. Management of Newco will be led by Metrocall's President and CEO, Vincent D. Kelly, who will be President and CEO of Newco and a member of its Board of Directors.

## 2. FCC Applications Filed.

The shareholders of Metrocall will hold only a minority of the voting stock of Newco, so this transaction will constitute a substantial change of control for Metrocall, and of its license holding subsidiary, Metrocall USA Inc. ("MUSA"). For Arch,

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<sup>8</sup> The percentages may vary slightly, based on the extent of cash elections made by Metrocall's shareholders at or prior to the closing of the merger. Nonetheless, the basic structure – that Arch's shareholders will obtain the majority of the equity in Newco – will not be affected.

<sup>9</sup> Upon closing of the proposed assignment of the licenses held by the subsidiaries of WebLink Wireless I, LP ("WebLink") to Metrocall's wholly-owned subsidiary Metrocall USA, Inc. ("MUSA"), WebLink's controlling owner, Leucadia National Corporation ("Leucadia"), will receive additional warrants that, when all warrants are exercised, will make it the largest equity holder of Metrocall. Assuming consummation of the WebLink-Metrocall transaction prior to consummation of this transaction, Leucadia will hold interests in approximately 15% of Metrocall's equity on a fully-diluted basis; following the Arch/Metrocall merger, Leucadia's equity interest will be diluted to slightly over 4% of Newco.

<sup>10</sup> The equity of both Arch and Metrocall is publicly traded, and their ownership therefore remains subject to change.

however, this transaction will not constitute a substantial change of control, because the shareholders of Arch will continue to hold a clear majority of Newco. But because Newco will be interposed in the corporate structure, Arch, as well as its license holding subsidiaries,<sup>11</sup> will undergo a *pro forma* change of control. Accordingly, the following applications are being concurrently filed with the Commission to seek approval to effectuate the merger:

<b>FCC Form</b>	<b>Licensee</b>	<b>Services</b>
603 (online)	Metrocall USA, Inc.	CD, CN, CP, <sup>12</sup> CZ, GC, GS, IG, IK, MG, MW, PW
603 (manual)	Metrocall USA, Inc.	CN, GS, MG
312	Metrocall USA, Inc.	SES
312 ( <i>Pro Forma</i> )	Arch Wireless License Co., LLC	SES
312 ( <i>Pro Forma</i> )	Arch Wireless License Co., LLC	VSAT

In addition, in accordance with the Commission's forbearance policy, Arch's license holding companies (Arch Wireless License Co., LLC and Nationwide 929.9975 LLC) will file notice of the *pro forma* transfers of control of their respective CMRS licenses after the transaction is consummated.

Furthermore, the parties would note that the licenses included in the manually-filed application are currently held by PageMart II Holdings, LLC and PageMart PCS

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<sup>11</sup> Including Arch's 50 percent holdings (and negative controlling interest) in Nationwide 929.8875 LLC.

<sup>12</sup> All licenses with radio service code CP, and some licenses with radio service code CZ (specifically, Call Signs WPVF757, WPVF758 and WPVF759), were obtained by MUSA within the past three years through the competitive bidding process, in Auction No. 40. A copy of the parties' Merger Agreement, as it was filed with the Securities Exchange Commission, is therefore submitted with this application.

Holdings, LLC each of which are subsidiaries of WebLink Wireless I, LP. These licenses are the subject of applications 0001525608 and 0001525609, by which Metrocall and WebLink seek FCC consent to the assignment of those licenses to MUSA. The manually-filed application assumes consummation of the assignment of the Weblink licenses to MUSA, which the parties believe is likely to occur before closing of the Arch-Metrocall merger. If the parties become able to complete this transaction before the Weblink transaction has been consummated, they may amend the manually-filed application, or the pending assignment applications, accordingly.

Arch's and Metrocall's FCC license-holding subsidiaries will continue to exist for some period of time following the consummation of this merger. It is anticipated that they ultimately will be consolidated, with appropriate *pro forma* notifications and applications filed with the FCC.

The parties respectfully request that the Commission process these various applications together, and that it grant a blanket exemption from any "cut-off" rules applicable to any applications filed or to be filed by either of the parties. The grant of such an exemption would be consistent with the Commission's past practices involving large transactions.<sup>13</sup>

## **II. PUBLIC INTEREST AND EFFECT ON COMPETITION**

In its public interest analysis under Section 310(d), the Commission generally considers the following factors:

- (1) whether the transaction would result in any violation of the Act or any other applicable statutory provision;
- (2) whether the transaction would result in a violation of the Commission's rules;
- (3) whether the transaction

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<sup>13</sup> See, e.g., Applications of PacifiCorp Holdings, Inc. and Century Telephone Enterprises, Inc., 13 FCC Rcd. 8891 (1997).

would substantially frustrate or impair the Commission's implementation or enforcement of the Act or interfere with the objectives of that and other statutes; and (4) whether the transaction promises to yield affirmative public interest benefits.<sup>14</sup>

The proposed transaction will not result in any violation of the Act, the Commission's Rules, or any statutory scheme applicable to the parties. In the highly competitive mobile communications industry, the merger will not result in undue market concentration or permit the parties to engage in anti-competitive conduct; rather, the combined company will be in a position to exploit synergies and cost savings for the benefit of consumers. The proposed merger will advance the Commission's pro-competitive policies, and will have affirmative public interest benefits

**A. The Proposed Merger Will Not Harm Competition.**

The public interest is, of course, informed in part by the competitive impact of a proposed transaction. Here, there will be no adverse competitive impact, as the combined entity will lack the ability, by itself or in combination with others, profitably to maintain supra-competitive pricing.

1. **The Relevant Product Market  
is Wireless Mobile Services.**

Both Arch and Metrocall offer services that compete within a broad market for mobile communications services. While Arch and Metrocall have tended to focus on narrowband paging/messaging services, those services exist (and must compete for subscribers) within a much broader services market that includes numerous national and local firms, each offering a variety of voice and data communications services.

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<sup>14</sup> See Arch Communications Group, Inc. and Paging Network, Inc., 16 FCC Rcd. 3675, ¶ 9 (2000) ("Arch/PageNet Order").

a. **Consumers Freely Substitute**  
**Among Wireless Mobile Services.**

The paging industry has declined by roughly 75 percent in less than five years because customers have been abandoning traditional offerings in favor of alternative mobile communications services. Individual consumers looking for a service that will allow them to be accessible while away from a landline telephone may choose among a variety of options, including paging, mobile telephony, and other services. Consumers that abandon paging are not giving up wireless communications. Internal and external market research confirms that most people who leave paging service do so because they either have, or intend to acquire, an alternative mobile service.<sup>15</sup>

The relevant product market accordingly extends well beyond stand-alone paging services, encompassing the general mobile telecommunications market in the U.S.<sup>16</sup> The Commission has consistently counted mobile messaging services, including traditional one-way paging, as part of the broader marketplace for commercial mobile radio services.<sup>17</sup> The market in which paging carriers compete consists of many types of mobile services that customers can substitute for traditional paging or messaging services, all offered by many different competitors.

As an initial matter, there is strong evidence of substitution by consumers of mobile telephone service for traditional paging services. The results of a recent survey by Arch of its multi-unit customers demonstrate this level of substitution. Among those who had decreased their paging usage over the past three years, roughly half (48 percent) reported that they had migrated to wireless phones or services provided by Nextel

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<sup>15</sup> See, Seventh Report at 66-68

<sup>16</sup> See, e.g., Fifth Report at 58.

<sup>17</sup> See, e.g., id. ("In the context of this developing [mobile data] sector, paging/messaging services can be viewed as part of the larger landscape")

Communications, Inc. ("Nextel") such as DirectConnect, a "push-to-talk" service that allows a user to access a large number of subscribers simultaneously. Another 19 percent responded that pagers were "outdated technology," implying that they had switched to another mobile communications solution. Among those who had disconnected their paging service entirely, 79 percent reported that they had replaced their pagers with cellular/PCS service or Nextel. Thus, 67 to 79 percent of the customer loss addressed by the survey was the result of substitution between paging and alternative wireless technologies.

Industry statistics confirm the survey results and anecdotal evidence. Even as paging subscribership has declined by roughly 75 percent from 45-52 million to 12 million units in service, mobile telephone subscribership has nearly doubled, from 86 million units in service at the end of 1999 to more than 155 million today.<sup>18</sup> The evidence plainly shows that consumers – even those who have historically been loyal to traditional paging services – perceive mobile telephony (with or without data service attached) to be a substitute for traditional paging services. Moreover, paging carriers lose thousands of units every month to competition from bundled voice and data services offered by mobile telephony providers who routinely provide data services as part of a "one price" package.<sup>19</sup>

Mobile data functions, such as two-way messaging, e-mail, and caller ID, duplicate the functionality that has historically been offered only by pagers. The basic function of paging is to alert the recipient that she has a message, and then to deliver a

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<sup>18</sup> See <http://www.wow-com.com/> (current number of wireless subscribers); Fifth Report at 9 (number of subscribers at year-end 1999).

<sup>19</sup> See "Paging Splits as Carriers Find Niche or Expand Beyond Core," RCR Wireless News, (May 26, 2003).

brief message: a call-back number, a short text message, or a voice message. Each of these functions is duplicated by one or more features that are typically bundled with cell phones: caller ID and the "missed calls" log duplicate numeric paging. Most cell phones now come with voicemail service that is as good as or better than that available from paging companies; and alphanumeric paging competes directly with short message services. Consequently, paging has declined concurrently with the rise of mobile phones, and in particular the advancement and increasing penetration of these bundled digital features.<sup>20</sup>

Short message service ("SMS") is a prime example of a bundled mobile communications service provided by mobile telephone carriers that competes directly with paging.<sup>21</sup> SMS is the transmission of short alphanumeric messages to and from a mobile phone or other handheld device. SMS is a very popular feature; it is estimated that by the end of 2007, there will be 75 million U.S. SMS subscribers.<sup>22</sup>

As shown by the table below, all the large mobile phone carriers provide SMS at very inexpensive rates. As a result, these carriers have developed substantial SMS subscriber bases. The six largest mobile telephony carriers have an estimated total of 33.2 million SMS subscribers, more than four times the eight million paging UIS that the post-merger company would have. Cingular Wireless alone has an SMS subscriber base that is essentially equal to the combined UIS of the post-merger company.

Company	SMS Monthly Charges <sup>23</sup>	SMS Subscriber Base
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<sup>20</sup> See "State of the U.S. Paging and Advanced Messaging Industry," the Strategis Group, 2001 (the "Strategis Report") at 15.

<sup>21</sup> *Id.* at 17.

<sup>22</sup> See "IDC Projects Strong Growth in Wireless SMS and IM with Market Opportunities Varying by Segment"(May 29, 2003). Available at [www.idc.com](http://www.idc.com)

<sup>23</sup> The SMS monthly charges for the listed carriers are found at Eighth Report at E-2.

Verizon Wireless	\$2.99 for 100 messages \$3.99 for 200 messages \$7.99 for 300 messages	6.5 million <sup>24</sup>
Cingular Wireless	\$2.99 for 100 messages \$5.99 for 250 messages \$9.99 for 500 messages	8 million <sup>25</sup>
AT&T Wireless	\$1.99 for 25 messages \$4.99 for 100 messages	5 million <sup>26</sup>
Sprint PCS	\$15.00 per month for Vision services (including SMS)	6.7 million <sup>27</sup>
Nextel	\$5.00 for 300 messages	2.6 million <sup>28</sup>
T-Mobile	\$2.99 for 300 messages	4.4 million <sup>29</sup>

Paging carriers also face competition from providers of data-only applications, which offer e-mail, Internet access, and other services to devices such as Personal Digital Assistants (“PDAs”) and Blackberries.<sup>30</sup> The FCC has noted the “multitude of mobile data services, service providers, pricing plans and devices available to customers.”<sup>31</sup>

These services include short messaging, e-mail, and Internet access; they can be delivered on platforms including cell phones, PDAs, laptop computers, and Blackberries; over networks operated by cellular, PCS, Specialized Mobile Radio (“SMR”), satellite, or paging carriers and on a local, regional, national, or international scale.<sup>32</sup> The FCC estimates that the use of data-only mobile services more than doubled during 2002.<sup>33</sup> And in the future, according to the Telecommunications Industry Association (“TIA”), “new applications, such as wireless Internet access, text messaging, instant messaging,

<sup>24</sup> See “Strigl Sees Enterprise, Consumer Data Success,” Telephony Online (Sept. 9, 2003).  
<sup>25</sup> See “SMS Challenges in the U S Marketplace,” Billing World and OSS Today (May 2002).  
<sup>26</sup> See “Sprint to Offer Video, 3D Games for Cell Phones,” CNET News.com (January 9, 2004).  
<sup>27</sup> See “Factbox – U.S. Wireless Competitive Landscape,” Quote.com: Reuters (February 17, 2004)  
<sup>28</sup> See “Nextel and RIM Announce Enterprise Java Developer Contest for Blackberry 6510,” Press Release (June 10, 2003).  
<sup>29</sup> See “T-Mobile USA, Global Wireless Data Conference,” (Dec. 10, 2003), Slide 7.  
<sup>30</sup> See Eighth Report at ¶¶ 131-134.  
<sup>31</sup> Id. at ¶ 127.  
<sup>32</sup> Id. at ¶¶ 131-134; 180-181.  
<sup>33</sup> Id. at ¶ 124.

ring tones, wireless games, multimedia messaging services and Wi-Fi technologies will continue to drive the [mobile communications] market.”<sup>34</sup> Metrocall and Arch both believe that these new services, coupled with the desire of end users to carry a single device, will impose an even greater competitive constraint on their ability to retain paging customers.

Wall Street analysts agree, and project that the number of one-way paging units will continue to “decline steadily . . . led largely by migration of one-way users to either advanced messaging units or handsets with paging or [text messaging] capabilities.”<sup>35</sup> The Commission itself confirms that mobile data customers in the U.S. have increasingly turned away from paging services and availed themselves of mobile telephone services that include text messaging and similar offerings.<sup>36</sup> Plainly, buyers can and do substitute freely among a variety of data, voice-and-data, and voice-only mobile services. This ready substitutability means that paging is not in a market by itself.

b. Traditional Paging is Price-Disciplined  
by Other Wireless Services.

Paging companies’ business decisions have been strongly influenced by the prospect of buyer substitution among wireless applications. They have been forced to cut prices in order to compete in the expanding mobile communications market.<sup>37</sup> For instance, Metrocall has cut its paging prices in response to the exodus of its customer base to other wireless technologies, particularly mobile telephony services. Since 2000, Metrocall has cut its average monthly service charges to its business customers by

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<sup>34</sup> See “U.S. Wireless Market to Reach \$190.8 Billion by 2007, According to TIA Study,” Broadband Wireless Exchange Magazine (December 2003).

<sup>35</sup> See Strategis Report at 37.

<sup>36</sup> See Fifth Report at 58.

<sup>37</sup> See Strategis Report at 45; “Carriers Load on Minutes to Lure Subscribers,” Wireless Week, Mar. 4, 2002.

roughly 30%. By comparison, over roughly the same time period (1999 to 2003), the average monthly charges for mobile telephony and for bundled voice/data services dropped by nearly one-third.<sup>38</sup>

The disciplining effect of alternative CMRS technologies on paging services is illustrated by the following chart, which offers the comparison that would be relevant to a consumer looking to purchase a nationwide alphanumeric messaging service.

**Nationwide Messaging Services**<sup>39</sup>

<b>Provider</b>	<b>Price</b>	<b>Message Service</b>	<b>Voice Service</b>
Arch	\$26.95	140 Messages Receive-Only	None
Metrocall	\$29.95	100 Messages Receive-Only	None
AT&T Wireless	\$24.98	Unlimited: Receive 100 Send	30 minutes
T-Mobile	\$22.98	300 Send or Receive	60 minutes
Verizon Wireless	\$42.98	100 Send or Receive	400 minutes
Sprint PCS	\$40.00	100 Send or Receive	300 minutes
Cingular	\$42.98	100 Send or Receive	450 minutes
Nextel	\$44.99	300 Send or Receive	500 "cellular" minutes 100 Direct Connect minutes

Few consumers would endure a supra-competitive price increase for nationwide receive-only paging service, when they could, for example, subscribe to short messaging service from AT&T wireless or T-Mobile for a price comparable to the price they pay

<sup>38</sup> See "Wireless Industry Spurs Upgrade Trend," Markets Wireless, Oct. 24, 2003. Likewise, paging companies have been forced by this competitive pressure to improve service offerings without raising prices. See id.

today, and receive additional services (such as 30 or 60 minutes of voice telephone service) for “free.”<sup>40</sup>

Consumers and businesses choose from among a wide range of products available to them, and can receive these applications from an abundance of carriers, over a variety of different networks. All of these mobile services, including paging, offer the ability to receive information while on the move. Due to the interchangeable nature of these services, they influence and react to each other. The ease with which subscribers can switch from traditional paging services to other forms of mobile communications services shows that any small but significant nontransitory increase in price would be unprofitable for the combined company. That is, if Newco attempted to raise prices by 5 to 10 percent, subscribers could easily migrate to the above-mentioned mobile communications service, and any such attempted price increase would be unprofitable. Consequently, the relevant product market is properly identified as the mobile communications market, and the competing mobile data service providers are participants in that market.

c. Even if “Core Customers” Exist, They Do Not Imply a “Paging-Only” Market.

Some sources suggest that hospitals, emergency personnel, and certain business enterprises are the “core customers” for traditional paging services.<sup>41</sup> While it is doubtless true that some customers perceive some particular attributes of paging to offer an attractive proposition relative to the alternatives, the evidence does not support a conclusion that even “core customers” cannot or would not substitute to other mobile communications services in the face of increased paging prices.

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<sup>39</sup> Source: Company websites.

<sup>40</sup> In addition to voice, each of these services also includes additional services such as voicemail and caller ID.

<sup>41</sup> See Eighth Report at ¶ 142.

However, Arch's and Metrocall's customers come from a wide array of diverse and sophisticated business and industry sectors that includes construction contractors, state and local governments, utilities, finance, insurance, real estate professionals, and manufacturers, among others. While these customers apparently perceive that paging services, as currently priced and structured, offer a better value proposition than various other mobile communications alternatives, that does not mean that they are in any way dependant on paging to satisfy their communications needs.

On the contrary, many purportedly "core" customers have been switching from traditional paging to other forms of mobile communications services. For example, limousine drivers used to be a significant market segment for Metrocall's services. As it turns out, Nextel's push-to-talk service makes an attractive substitute for that market segment. When Nextel commenced advertising DirectConnect service, Metrocall began losing limousine driver customers to Nextel. And according to Metrocall's internal records, when Nextel offered a pricing package that included unlimited DirectConnect calling for a flat rate, Metrocall lost nearly all of its limousine driver customers to Nextel.

Although hospitals and similar institutions currently utilize paging services for a variety of reasons, such as their relatively low cost and simplicity,<sup>42</sup> many medical establishments are increasingly replacing pagers with other forms of wireless devices.<sup>43</sup> For example, in the Spartanburg, SC area, two hospitals (St. Francis Hospital and Spartanburg Regional Medical Center) recently replaced traditional pagers with roughly 500 Nextel phones. Moreover, at least one hospital has installed an internal "Wi-Fi"

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<sup>42</sup> Id.

<sup>43</sup> See, e.g., "Hospitals Wheel in Wireless Future," City Business – Minneapolis, Vol. 16 No. 41, p. 19 (March 5, 1999).

(IEEE 802.11) network that runs not only laptop and telemetry applications, but also replaces pagers by providing VoIP-based telephony and messaging on special wireless handsets.<sup>44</sup> Reflecting the desire of hospitals to have an integrated wireless solution, Nextel has recently added a range of services tailored to hospitals and healthcare institutions called "Packaged Applications and Benefits."<sup>45</sup>

This trend extends beyond hospitals and healthcare providers to a variety of other large institutional users. As another example, the National Disaster Medical System ("NDMS") (a branch of the Department of Homeland Security that provides disaster relief medical care throughout the U.S.) requires that each of its members carry an alphanumeric or text messaging device to receive notifications of advisories and alerts.<sup>46</sup> The wireless devices that NDMS members are permitted to use are not limited to pagers; they include (a) alphanumeric pagers; (b) wireless telephones with text-messaging capability; and (c) PDAs with text-messaging capability, including Blackberries.<sup>47</sup>

In addition, for many institutional customers, traditional paging services are only one part of the portfolio of wireless services they procure. These customers also buy a variety of other wireless services, including cellular, PCS, digital SMR, and Blackberries. Typical enterprise customers re-balance their wireless portfolios on an ongoing basis. They modify their portfolios based on prevailing prices, service offerings, and particular individual needs.

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<sup>44</sup> See Rebecca Reid, Toronto Hospital Deploys Wireless VoIP, Network World Canada, Vol. 13 (Sept. 19 2003). See also, e.g., Wireless Office Service Enhances Patient Care by Providing Immediate Access to Physicians on the Move, PR Newswire (May 15 2001); "Wireless to the Rescue," Information Week (March 1, 2004).

<sup>45</sup> See [www.nextel.com/about/enterprise/wbs/packaged\\_apps\\_heal.shtml](http://www.nextel.com/about/enterprise/wbs/packaged_apps_heal.shtml)

<sup>46</sup> See [www.boston-ndms.org](http://www.boston-ndms.org).

<sup>47</sup> Id.

Both Metrocall and Arch have experienced this trend, as multi-unit customers have been purchasing service for fewer and fewer traditional paging units. Thus, while it may be the case that some customers may be less inclined than others to discontinue paging services, these customers nevertheless can switch a *portion* of their paging usage to other alternatives. They can do this either by canceling paging units, or simply by failing to replenish paging units as they wear out. Both Arch and Metrocall have observed this type of substitution taking place.

For example, among Arch's 20 largest customers in February 2003, 16 had decreased their spending on paging services by at least 10 percent per month by February 2004. In an attempt to counter this downsizing trend, both Arch and Metrocall have repeatedly been forced to lower their prices to their customers. They have lowered their prices in order to keep their price and service offerings competitive with other wireless offerings, and to maintain a place in their enterprise customers' wireless portfolio.

Thus, even among customers in industries that historically favored paging, the pricing of paging services will be constrained by the fact that these customers have the ability to shift their wireless portfolios away from traditional paging services. Because consumers can and do easily substitute among a variety of mobile communications services, the merger between Arch and Metrocall must be analyzed in the context of the broader market for mobile communications services.

2. **The Merger Will Not Diminish Competition  
in the Mobile Communications Market**

The merger of Arch and Metrocall will not diminish competition within the market for mobile communications services. The Commission has often noted the highly competitive nature of the CMRS market, and of the paging and messaging subsector in

particular.<sup>48</sup> The post-merger company will face numerous competitors nationally, and in every significant locality in the U.S., following the planned merger.

On the national level, there are at least eight major mobile service providers that offer data and voice services throughout the U.S.<sup>49</sup> There are also at least five mobile telephony carriers that provide data services in most local and regional markets.<sup>50</sup> More than 80% of the U.S. population can choose from five different mobile data service providers, and approximately 25% can choose from seven or more operators.<sup>51</sup>

Nor would the combined entity be a dominant – or even particularly significant – player in this market. As shown by the table below, Arch’s and Metrocall’s subscriber bases are relatively small compared to those of their main competitors; and, their subscriber losses and competitors’ gains mirror the current trend in the U.S. mobile communications market.

<b>Comparison of Arch &amp; Metrocall and Their Top Competitors</b>		
<b>Company</b>	<b>Subscriber Base (2003)</b>	<b>Trend</b>
Arch Wireless	4.4 million UIS <sup>52</sup>	(1.2 million) UIS 2002-2003 <sup>53</sup>
Metrocall Holdings	3.5 million UIS <sup>54</sup>	(200,000) UIS 2002-2003 <sup>55</sup>
Verizon Wireless	37.5 million subscribers <sup>56</sup>	5 million added 2003 <sup>57</sup>
Cingular Wireless	24 million subscribers <sup>58</sup>	2.1 million added 2003 <sup>59</sup>
AT&T Wireless	22 million subscribers <sup>60</sup>	1.06 million added 2003 <sup>61</sup>
SprintPCS	20.4 million subscribers <sup>62</sup>	2.6 million added 2003 <sup>63</sup>

<sup>48</sup> See, e.g., Seventh Report at 65

<sup>49</sup> See Eighth Report at ¶ 199

<sup>50</sup> Id.

<sup>51</sup> Id.

<sup>52</sup> See News Release, dated Nov. 1, 2003, www.Arch.com.

<sup>53</sup> Id.; Arch Wireless Annual Report 2003 at 11.

<sup>54</sup> See Press Release, dated March 15, 2004, www.Metrocall.com.

<sup>55</sup> Id.; Metrocall, Inc. 10-K Annual Report, Table: “Selected Revenues Data.”

<sup>56</sup> See “Nextel Adds Subscribers, Boosts Sales,” Washington Post, Feb. 20, 2004.

<sup>57</sup> Id.

<sup>58</sup> Id.

<sup>59</sup> Id.

<sup>60</sup> See Press Release dated Jan. 22, 2004, www.attwireless.com.

<sup>61</sup> Id.

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Nextel	12.9 million subscribers <sup>64</sup>	2 million added 2003 <sup>65</sup>
T-Mobile	13.1 million subscribers <sup>66</sup>	3.2 million added 2003 <sup>67</sup>

The vast majority of these other carriers offer both voice and data services over their networks.<sup>68</sup> Consequently, consumers and businesses wishing to purchase mobile messaging or other mobile data services have many competitors from which to choose, in addition to the post-merger company. Likewise numerous carriers will continue, post-merger, to provide narrowband services, including traditional paging, on a nationwide, regional and local scale. Hence, there is a significant amount of competition that would constrain any attempt at supra-competitive pricing.

The following chart illustrates the types of competition in some of Arch and Metrocall's principal services.

**Competition in Principal Offerings**

Service Offered	Potential Substitutes	Partial List of Competitors
One-way paging	Paging	Aquis, Bargain Beepers, Highland, PennSel, SkyTel, Verizon, SBC Paging/Ameritech
	Mobile phone (including with caller ID, voicemail, and/or SMS)	Alltel, AT&T Wireless, Cingular, Nextel, Sprint, T-Mobile, U.S. Cellular, Verizon
	PDAs with Blackberry, Palm Treo	AT&T, T-Mobile, Sprint, Verizon, Nextel, Cingular

<sup>62</sup> See Sprint Investor Update, 4Q 2003; see also, Sprint 10-K at 38 (filed March 9, 2004) (total number of UIS includes those served by affiliates, resellers and other distribution channels).

<sup>63</sup> Id.

<sup>64</sup> See "Nextel Adds Subscribers," Washington Post, Feb. 20, 2004.

<sup>65</sup> Id.

<sup>66</sup> See T-Mobile Quick Facts, [www.t-mobile.com/company/about/quickfacts.asp](http://www.t-mobile.com/company/about/quickfacts.asp).

<sup>67</sup> See "T-Mobile International Reports Fourth Quarter and Full Year 2003 Results for T-Mobile USA," [biz yahoo.com/bw/040301/105256/\\_1.html](http://biz.yahoo.com/bw/040301/105256/_1.html) (Mar. 10, 2004).

<sup>68</sup> Id. at ¶¶ 72-80.

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<b>Service Offered</b>	<b>Potential Substitutes</b>	<b>Partial List of Competitors</b>
Two-way paging	Two-way paging	Aquis, Bargain Beepers, Highland, Pagers Online, SkyTel, Verizon, SBC Paging/Ameritech, Motient, Cingular
	Mobile phone (including with SMS)	Alltel, AT&T Wireless, Cingular, Nextel, Sprint, T-Mobile, U.S. Cellular, Verizon
	PDA's with Blackberry, Palm Treo	AT&T, T-Mobile, Sprint, Verizon, Nextel, Cingular
Mobile telephony (PCS)	Mobile telephony	Alltel, AT&T Wireless, Cingular, Nextel, Sprint, U.S. Cellular, Verizon
Digital SMR (Nextel)	Mobile telephony	Alltel, AT&T Wireless, Cingular, Sprint, T-Mobile, U.S. Cellular, Verizon

Due to the ready availability of substitutable products at competitive prices, it would be easy and inexpensive for customers to obtain alternative services should the post-merger company attempt to raise prices or reduce service. Customers can and do switch easily among carriers, in response to minor variations in price or service. "Churn" (customer turnover or discontinuation of their service) is endemic in mobile communications generally, and in particular within the paging industry.<sup>69</sup> Should the post-merger company attempt to increase prices (or maintain an elevated price level), it would surely lose customers to any number of mobile communications providers.

3. **The Proposed Merger Will Not Harm**  
**Competition Among Traditional Paging Providers.**

<sup>69</sup> See Strategis Report at 37.

While the evidence shows that the relevant product market includes many different types of mobile communications services, even if traditional paging service alone were viewed as a distinct market, the proposed merger would not adversely affect competition. On either a local or a national basis, there is, and there will continue to be, ample competition in paging services.

a. There is Abundant Competition  
in National Services.

After the proposed merger, there will be at least six carriers that provide traditional paging service nationwide and that will compete directly with the combined company. These carriers include Aquis Communications (“Aquis”),<sup>70</sup> Skytel,<sup>71</sup> Verizon Wireless,<sup>72</sup> Highland Paging, Inc. (“Highland”);<sup>73</sup> Bargain Beepers U.S.A. (“Bargain Beepers”),<sup>74</sup> and Pagers Online, Inc. (“Pagers Online”).<sup>75</sup> This competition will constrain the post-merger company’s ability to raise prices above competitive levels for nationwide paging services.<sup>76</sup>

Additionally, there are a number of carriers that have nationwide Narrowband Personal Communications Service (“NPCS”) licenses. NPCS licensees may utilize their spectrum to provide many different types of services, including one-way paging and two-

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<sup>70</sup> See [www.aquiscommunications.com](http://www.aquiscommunications.com).

<sup>71</sup> See [www.skytel.com](http://www.skytel.com).

<sup>72</sup> See [www.verzionmessaging.com](http://www.verzionmessaging.com).

<sup>73</sup> See [www.paginginc.com](http://www.paginginc.com).

<sup>74</sup> See [www.bargainbeepers.com](http://www.bargainbeepers.com).

<sup>75</sup> See [www.pageronline.com](http://www.pageronline.com).

<sup>76</sup> Bargain Beepers and Pagers Online are resellers. As discussed elsewhere, paging resellers purchase services at wholesale rates and resell those services at retail. See *Eighth Report* at ¶ 122. Aquis is both a facilities-based carrier and a reseller; it provides facilities-based service on the east coast, and serves the rest of the country as a reseller. Because resellers can amalgamate the local or regional services of multiple carriers (including their own), competition at wholesale on the local or regional level helps to ensure that the rates for nationwide services remain competitive.

way messaging.<sup>77</sup> NPCS is licensed on a nationwide and regional basis.<sup>78</sup> The FCC's databases indicate there are 352 active NPCS licenses to date. Of those active licenses, the combined company will hold only 17 NPCS licenses: ten regional and seven nationwide licenses.<sup>79</sup> Ninety-five percent of the active NPCS licenses will be held by other entities.

Some NPCS providers, such as SBC Paging/Ameritech, Aquis and SkyTel, are already providing nationwide NPCS paging and messaging services. Others, such as Space Data Spectrum Holdings, LLC and Allegheny Communications Holdings, LLC, hold dozens of NPCS licenses, and could use their spectrum to provide paging and messaging services.

Moreover, a variety of resellers offer viable competition in the paging market. Because they purchase paging service in bulk and may lack some of the costs of facilities-based carriers, resellers may be able to charge less for service than facilities-based carriers.<sup>80</sup> And in addition to pure resellers such as Bargain Beepers and Pagers Online, existing local or regional facilities-based providers may use resale as a vehicle effectively to expand their footprint to a supra-regional or national presence. Aquis Communications, for example, provides facilities-based service only on the East Coast, but is able to offer a national footprint to its customers through the use of resale.

Consequently, despite the fact that the vast majority of paging subscribers do not utilize nationwide service, substantial paging competition exists at the nationwide level

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<sup>77</sup> See Amendment of the Commission's Rules to Establish New Narrowband Personal Communications Services, 8 FCC Red 7162, ¶ 13 (1993).

<sup>78</sup> Id. at ¶28.

<sup>79</sup> These figures assume the grant of the pending application for assignment of licenses from PageMart PCS to MUSA.

<sup>80</sup> See Eighth Report at ¶ 122.

that would constrain any attempt by the combined company to impose supra-competitive prices for nationwide paging services.

b. There is Abundant Competition  
in Local Services.

Even for the largest institutional customers, paging services are predominantly local in nature. These customers tend to require service only in their local markets. The traditional “road warrior” has long since abandoned her pager for cellphone and/or Blackberry service. And most of paging’s remaining customer base of tradesmen, “on-call” employees and the like, have little or no need to receive pages while out of town. Individual consumers (a rapidly shrinking customer base) also use pagers mainly on a local basis, for business and emergency contact with friends and relatives.<sup>81</sup> The vast majority of Metrocall’s customers – approximately 90 percent - use only local services. Similarly, roughly 95 percent of Arch’s customers subscribe only to local service. These customers do not tend to upgrade to nationwide services, but tend to purchase the same low-priced local services year after year.

There are hundreds of paging operators competing in localities throughout the U.S.<sup>82</sup> The extent of local competition is illustrated by the number of competing paging carriers in the top ten metropolitan areas that are currently served by Arch and Metrocall. As may be seen in the table below, these areas are served, on average, by 12 different paging carriers, *in addition* to Arch and Metrocall.

<b>Market</b>	<b>Local Paging Competitors</b>
Houston	Teletouch Communications Bryan 800 Communications SkyTel

<sup>81</sup> See Strategis Report at 38.

<sup>82</sup> See Seventh Report at 65