

Arch-Metrocall Transfer of Control

Market	Local Paging Competitors
	Texacom Corp. Awesome Paging, Inc. BayStar Communications Houston Telephone & Paging Express Message Corp. Aquis Communications AZLE Communications United Communications Link Two Communications
Dallas	AZLE Communications BayStar Communications Central Mobilephone, Inc. TexaPage, N.E., Inc Mobile Phone of Texas, Inc. Link Two Communications Aquis Communications

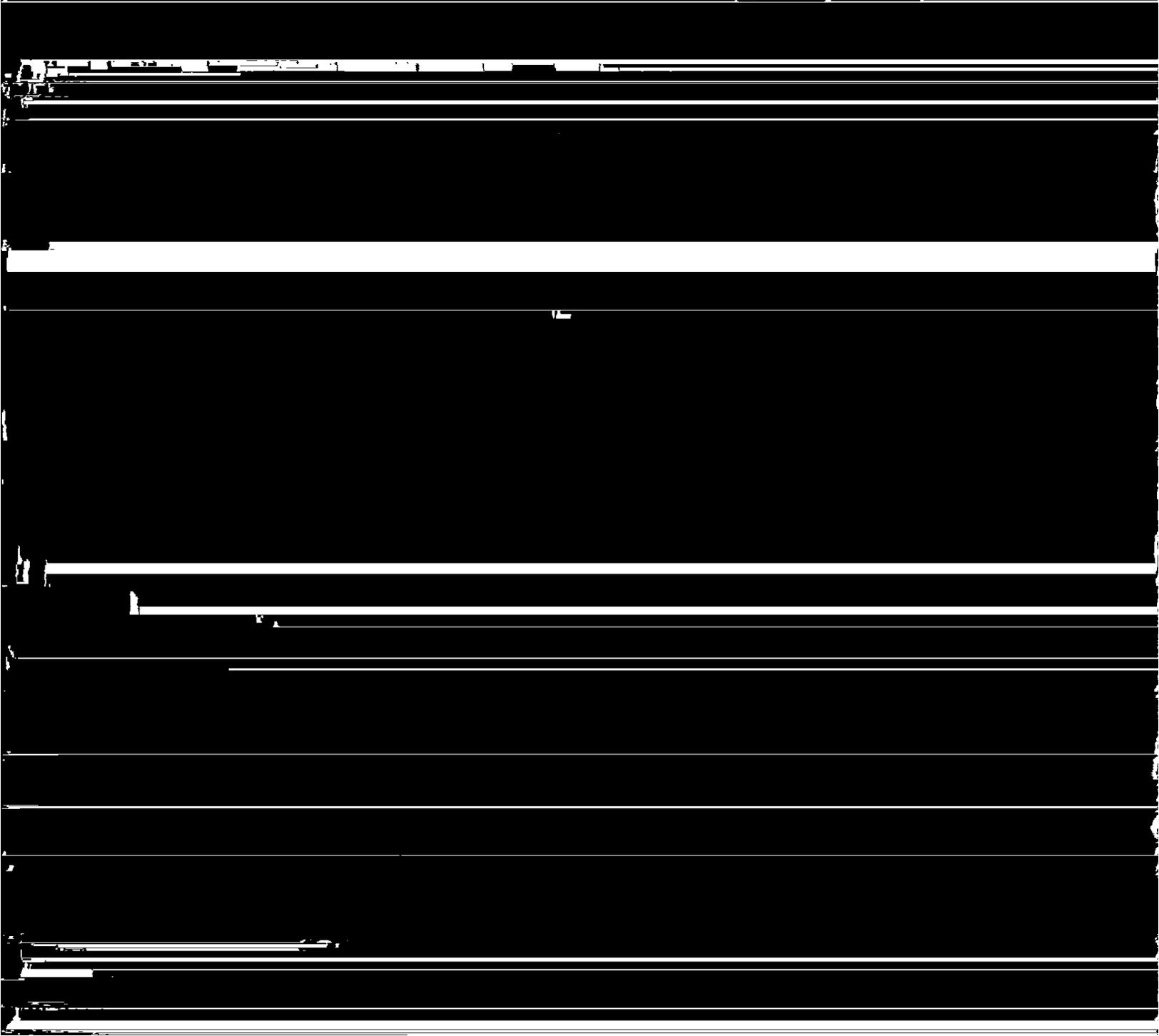
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Market	Local Paging Competitors
	SkyTel Aquis Communications Wavecomm Northeast Paging Aquis Communications Network Services, LLC Electronic Sales & Service Rinkers Communications Rockland Communications
Detroit	Futronics Paging, Inc. ALLTEL Ray's Mobile Communications Pro-Cor, Inc.

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Market	Local Paging Competitors
Los Angeles	Fisher Wireless Co. Inc. I

Indeed, competition at the local level is fierce. And smaller local and regional providers are often among the fiercest competitors. For example, in 2003 Arch lost the 2,150-pager account for the State of Kentucky when the state switched to local providers Satellink and Appalachian Wireless. In Florida, a local firm called Network Services beat Arch in a closed bid competition to service 1,550 paging units for the Palm Beach County Schools – a contract which Arch had previously held for years. Network Services also induced three Metrocall accounts (Brandon Regional, Fargo Medical, and



consumers such as hospitals, local government entities, and small businesses have chosen to construct and operate their own paging systems, rather than to outsource their paging needs to a third-party provider such as Arch or Metrocall. Industry sources estimate that for an average sized hospital (100-150 beds), a small paging network can be constructed for as little as \$25,000.⁸⁶ The required equipment consists of a transmitter, terminal, pagers, and some ancillary equipment.⁸⁷ The FCC has many frequencies available for commercial entities and non-commercial entities, such as health care providers, that could readily construct their own communications systems if retail prices were to rise.⁸⁸

Indeed, numerous hospitals and small businesses have already opted for their own paging systems. In the greater New York metropolitan area alone, with numerous local paging carriers from which to choose, seven hospitals, eleven local businesses, and three

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wireless communications.⁸⁹ One government contractor and a subcontractor supply wireless voice and data services to more than 167 VA hospitals throughout the U.S.⁹⁰

The presence of multiple effective competitors with excess capacity in each local

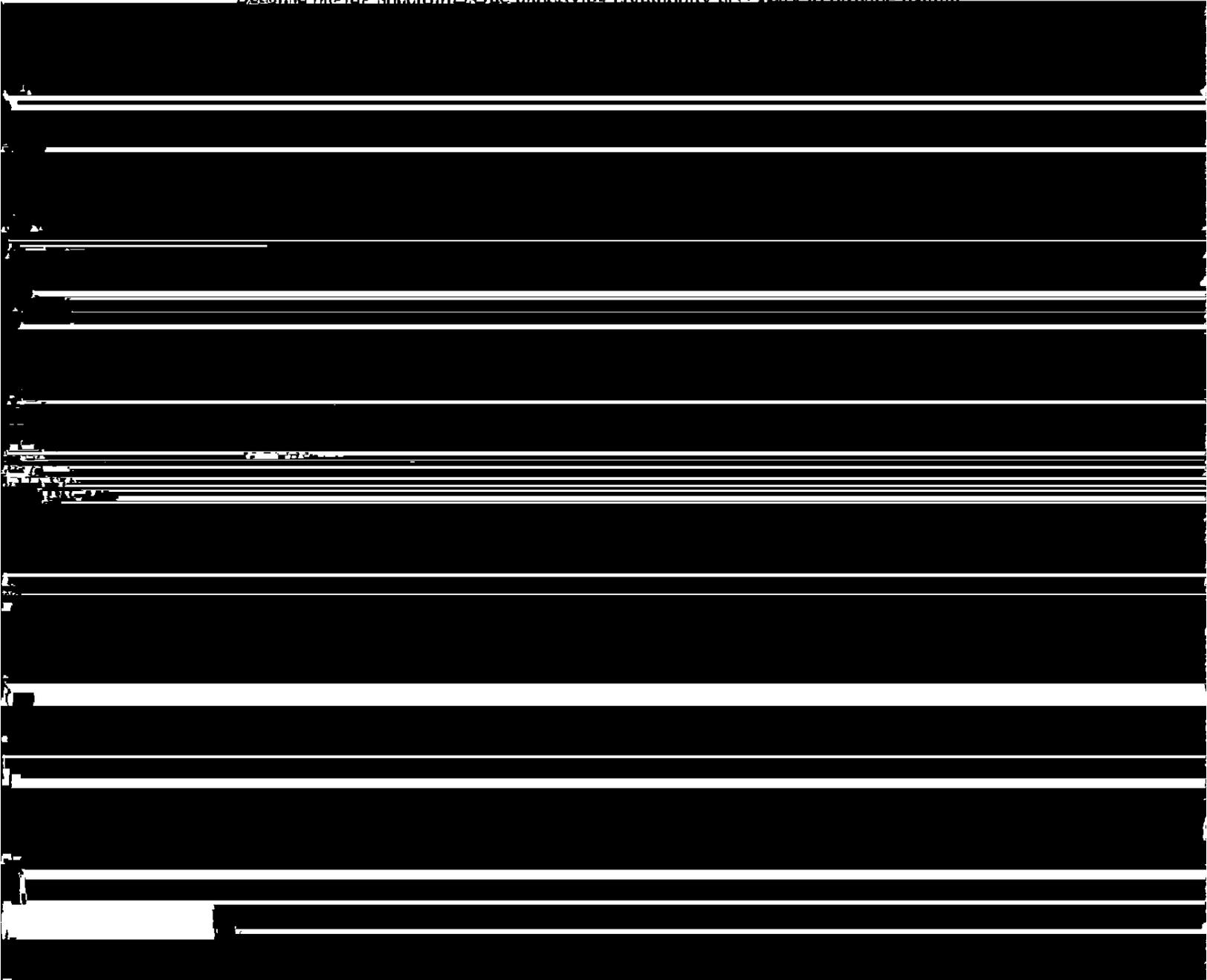
~~pricing market prevents any one of these competitors from unilaterally increasing prices~~

that market.⁹² For example, in a case where 57 out of 93 frequencies in a market (61%) had previously been assigned, the FCC determined that a proposed merger was not anticompetitive because 39% of the frequencies remained available to competitors.⁹³

a. The Merger Will Not Result in Significant Spectrum Concentration.

One measure of market concentration is by spectrum concentration: the number of paging/messaging frequencies that will be available after a merger in a given market.⁹⁴

Because paging spectrum is the underlying commodity necessary to provide paging



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available, and will remain available post-merger, in each of the top ten markets in which Arch and Metrocall currently compete. Because of the large number of available paging frequencies in each market, new competitors can enter, or current competitors can expand, after the proposed merger.¹⁰¹ For example, in the greater New York metropolitan area, the post-merger company's local paging competitors currently hold 46 paging frequencies.

Moreover, there are many options for potential paging providers to obtain paging spectrum. One option is to participate in the FCC's periodic auctions to obtain licenses



licenses to other entities, subject to FCC approval and other regulations.¹⁰⁷ Paging licensees who have won geographic licenses in the FCC's spectrum auctions may partition or disaggregate their licenses, so that new entrants need only obtain the amount of spectrum or geographic coverage that they need.¹⁰⁸ Likewise the FCC recently adopted rules to permit "spectrum leasing," which should further ease entry for potential paging carriers.¹⁰⁹

Given the wide availability of paging spectrum capacity, and broad distribution of licenses, it is evident that the post-merger company will not control enough spectrum to raise any anticompetitive concerns.

b. The Merger Will Not Concentrate Output Capacity.

The Merger Guidelines state that market share (and thus, by proxy, the

competitive significance of a merger) can be measured either in terms of cash flows

this market is a factor of the number of competitors, and not necessarily their actual (current) output.

The following table depicts the relative capacity of a single paging transmitter using certain commonly-used messaging technologies.¹¹⁰

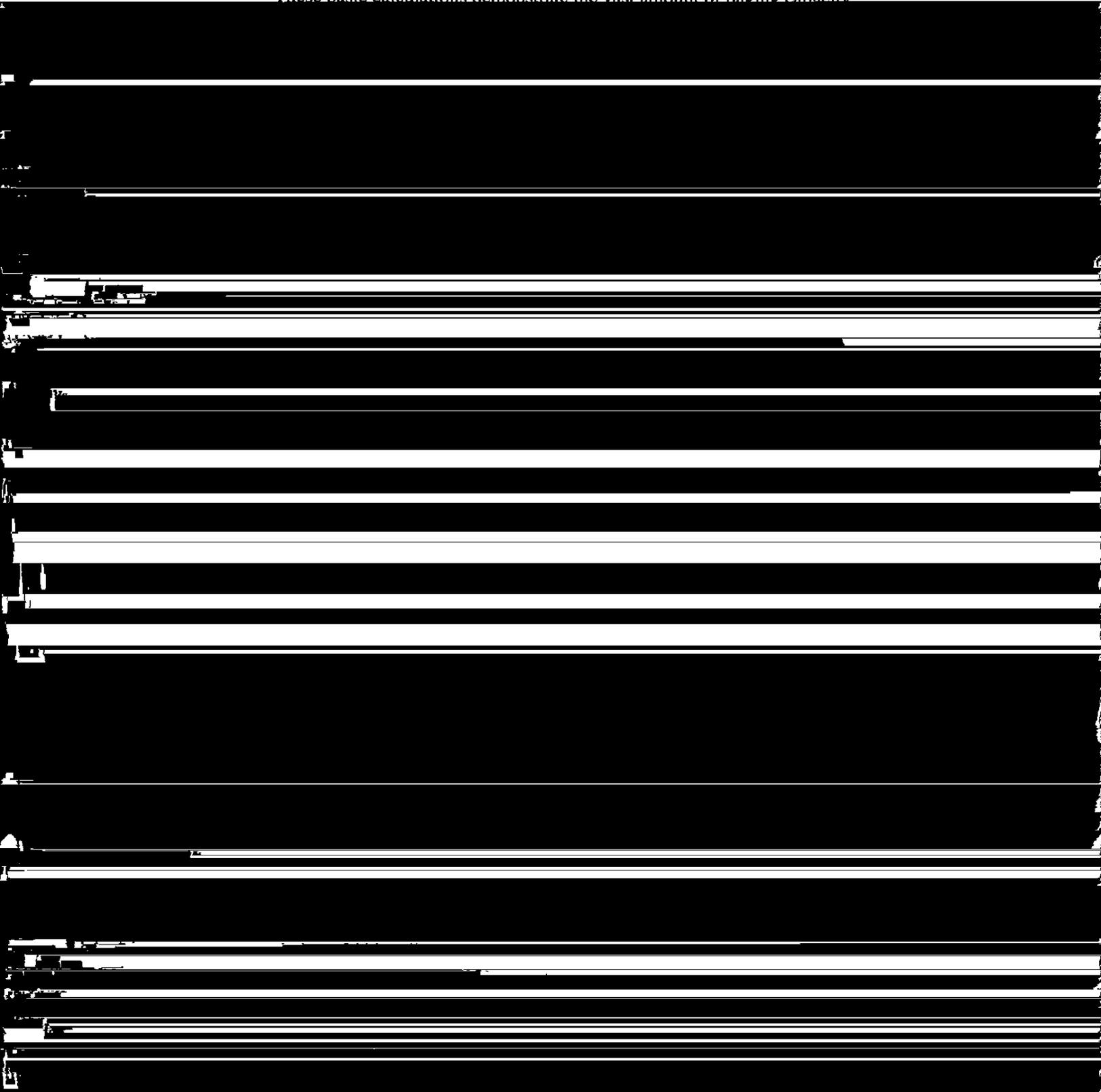
<u>Protocol/Baud Rate</u>	<u>Number of Paging Units That Can Be Supported on a Single Channel</u>
POCSAG 1,200	73,440
POCSAG 2,400	147,168
FLEX 1,600	82,602
FLEX 3,200	165,204
FLEX 6,400	330,409

This table shows that with a tiny amount of spectrum (one paging channel), and a very limited infrastructure (a single transmitter), a carrier can provide service to tens of thousands of units. Moreover, with a small amount of additional spectrum, a carrier could provide service to hundreds of thousands, or even millions, of units.

It is plain that in local markets in which Arch and Metrocall operate, the post-merger company's competitors have abundant capacity in their paging systems, and could increase their subscriber numbers in response to a price increase by the post-merger

baud rate, the competitors' capacity would be 6,756,480. The total population of New York City is 8 million.¹¹¹ The total number of paging units in service in the United States is only 12 million.

These basic calculations demonstrate the vast amount of paging capacity



extremely unlikely that any small, but significant, non-transitory increase in prices would be profitable for the post-merger company.

Taken together, this evidence shows that each paging carrier would be easily capable of increasing its own output by an amount sufficient to offset any decrease in output undertaken by a competitor in an effort to raise prices. Because each carrier

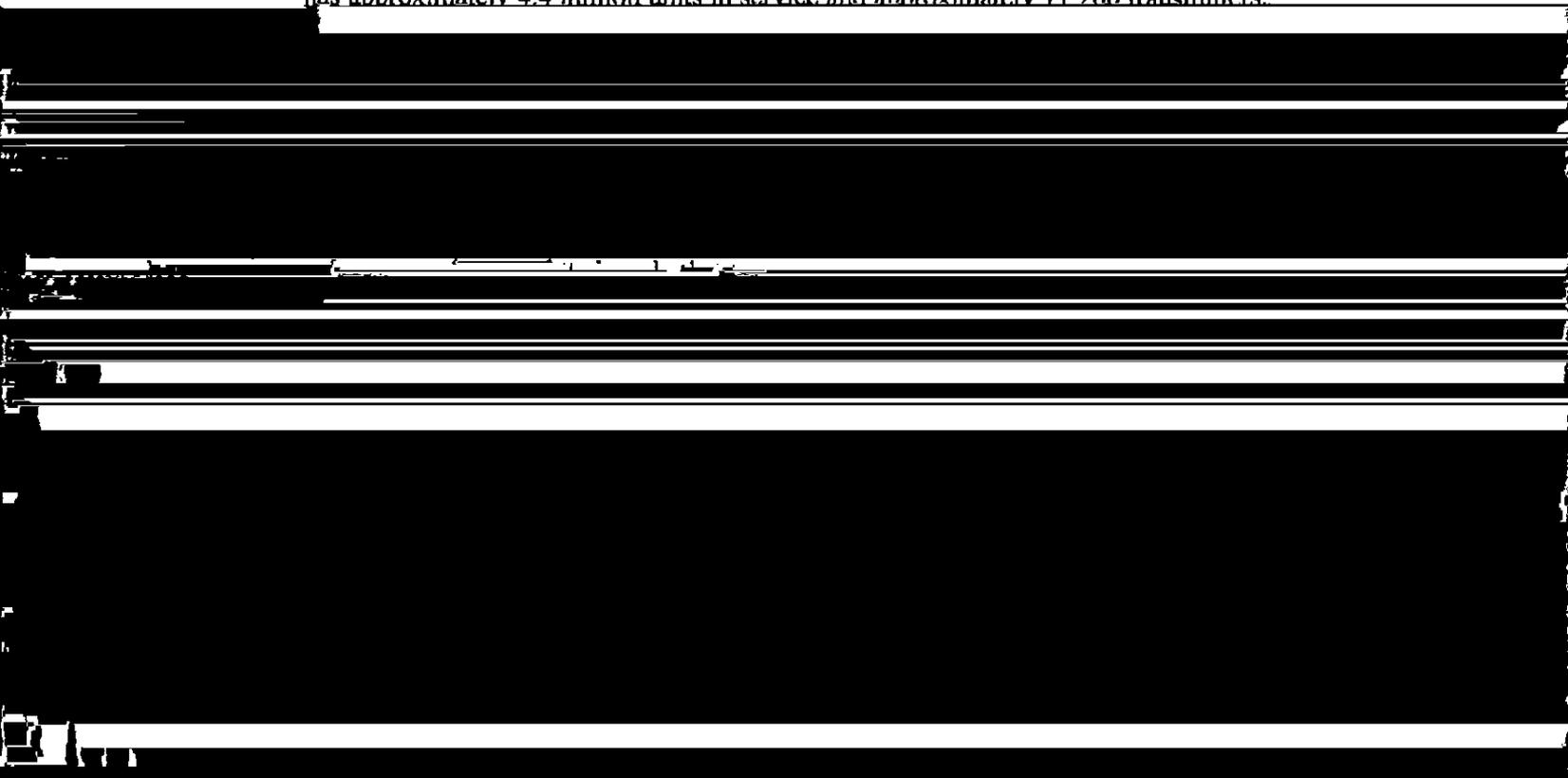
possesses abundant excess capacity and has the ability to expand production in a timely

providers with limited or no facilities to compete for business that may require a broader coverage area than their facilities may provide. Nor is there any particular technical challenge to providing a service as simple as traditional paging. Because paging service is generally considered a commodity product, entry would not be deterred by the lack of an established brand.¹¹⁴

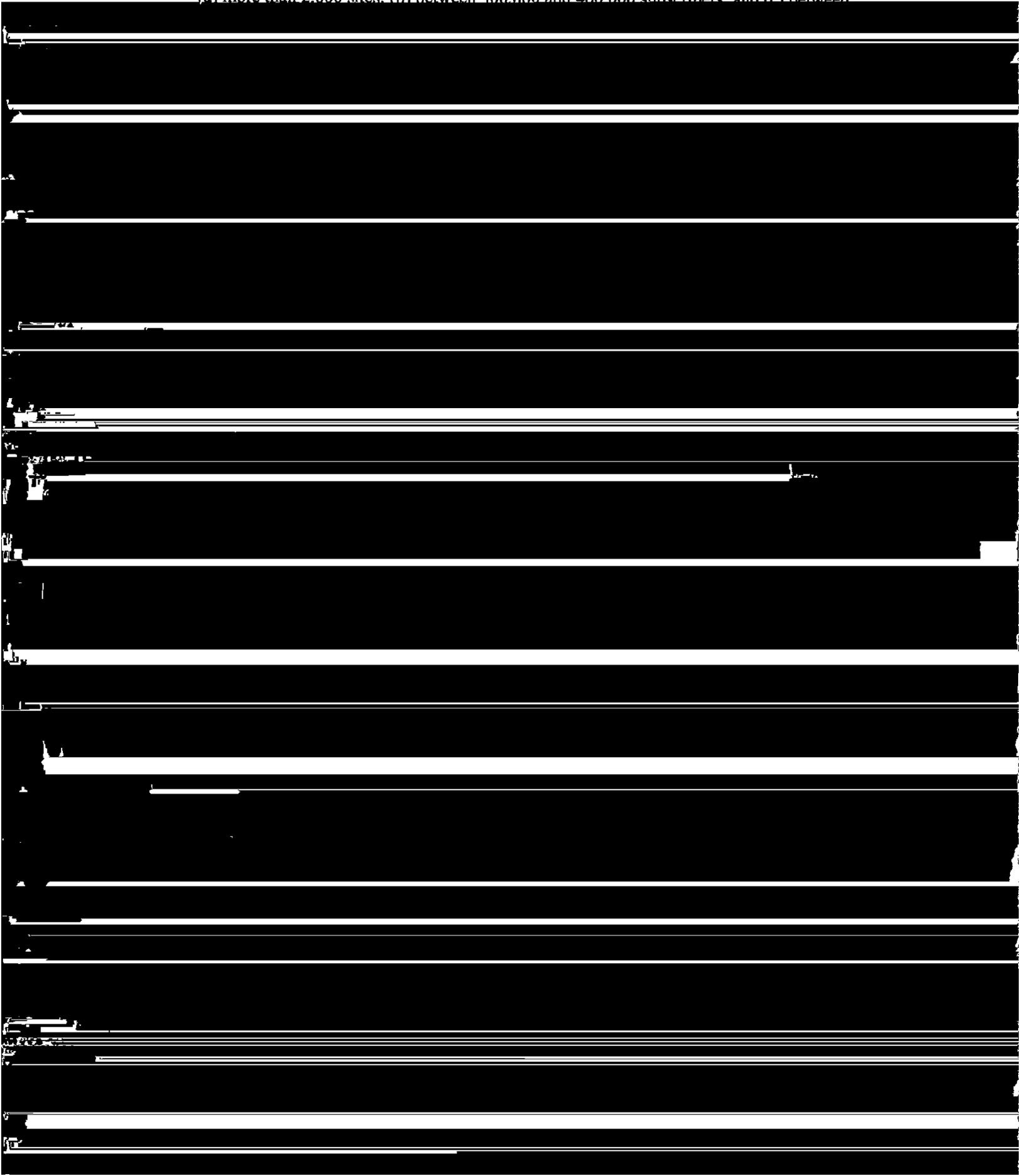
Even more likely than new entry by paging start-ups would be an expansion by existing telecommunications carriers, or self-provisioning by existing customers. Most wireless telephone carriers currently offer some sort of paging service bundled with their core wireless telephony. If supra-competitive profits ever became available in paging, it would be simple to restructure their existing offerings slightly in order to provide a pure-

...ing service, or whatever other service the market demanded. For example, AT&T

The Commission reviews proposed transactions to evaluate the merger-specific efficiencies that will result from the combination of two telecommunications companies.¹¹⁷ These efficiencies may include cost reductions, productivity enhancements, improved incentives for innovation, and advancement of other FCC policy goals. For example, the following efficiencies have been found to hold public interest benefits: (a) more efficient use of spectrum; (b) additional services that would be provided to current customers; and (c) the combined company's increased ability to compete in the mobile communications marketplace.¹¹⁸ The proposed merger between Metrocall and Arch will result in a number of such efficiencies. For example, the post-merger company will be able to eliminate redundant transmitters, which should result in substantial cost savings and lower the technical costs per paging unit. Metrocall currently has roughly 3.5 million units in service and approximately 8,700 transmitters, while Arch has approximately 4.4 million units in service and approximately 11,200 transmitters.

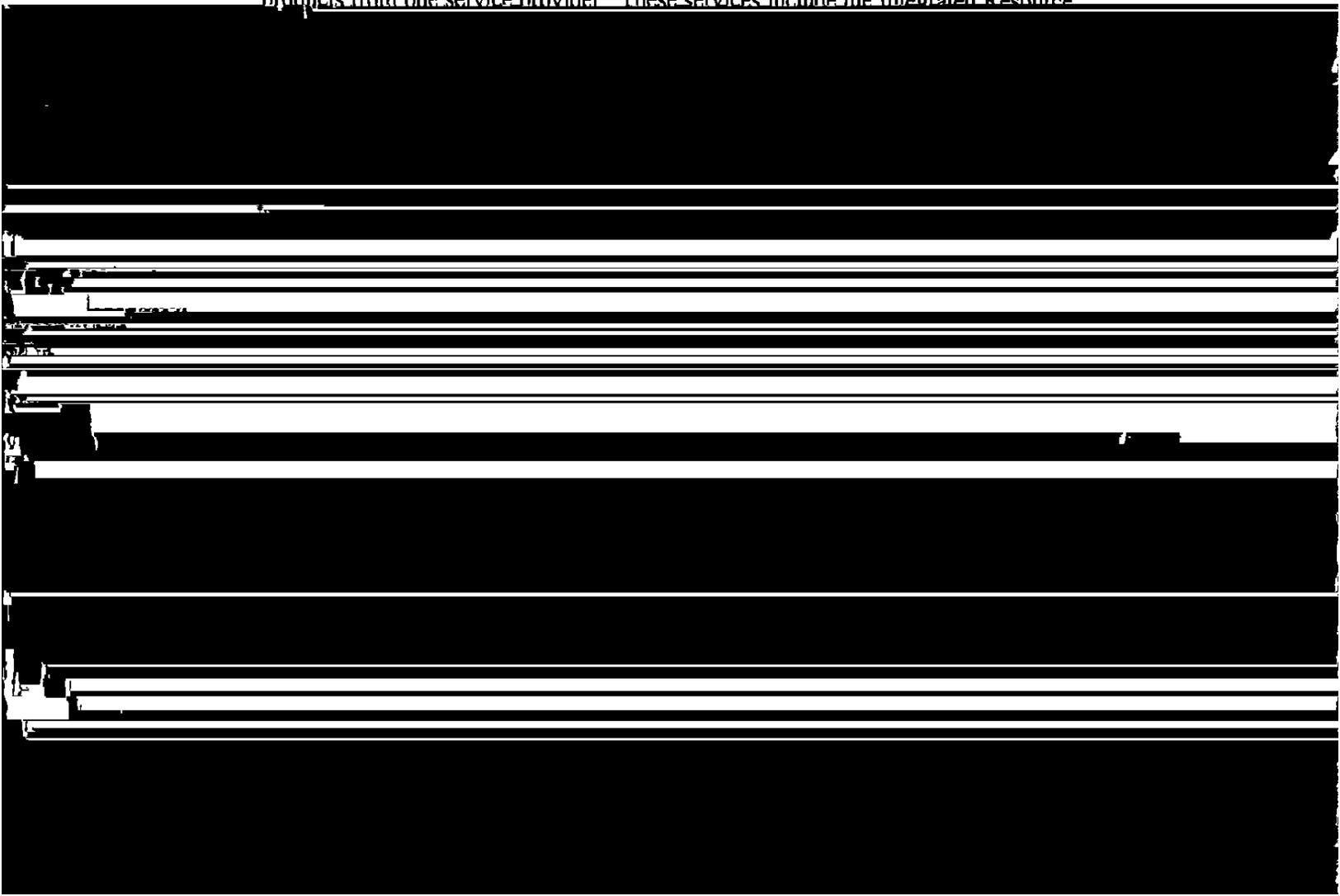


(a) more than 2,000 sites; (b) between 300,000 and 400,000 subscribers; and (c) between



The proposed merger will allow Metrocall and Arch to improve their financial conditions. Both companies have filed for bankruptcy protection in the last few years.¹¹⁹ Both companies have also experienced substantial quarterly revenue losses during the past several quarters, due mainly to losses in their one-way paging revenue bases. Metrocall reported a net decline of 254,440 units in service from December 31, 2002 through December 31, 2003, while Arch reported a loss of 1,203,000 units in service during that same period.¹²⁰

The proposed merger will enable the combined company to provide additional services to existing customers. For example, Metrocall offers a variety of communications and information services through distribution agreements that could immediately be made available to Arch customers who currently cannot obtain these products from one service provider. These services include the Integrated Resource



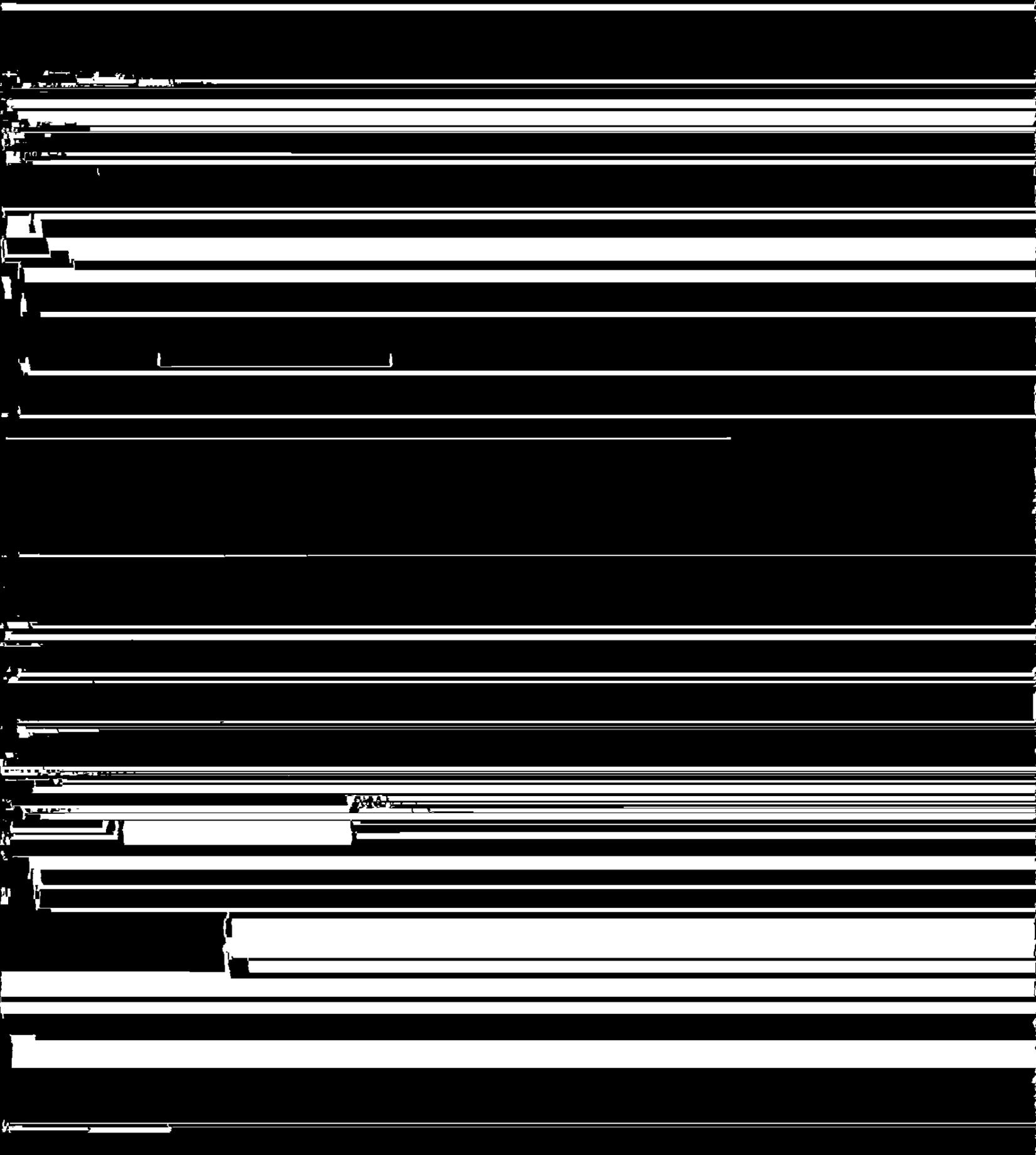
example, Metrocall's coverage in Maine, Montana, Vermont, Idaho, Wyoming, and Puerto Rico will be improved because Arch has materially more coverage in those states than Metrocall. The proposed transaction will improve Arch's coverage in Kansas and Virginia, where Metrocall has materially more coverage. In some states, such as Arkansas, both Arch and Metrocall cover significant, but different, portions of the state.¹²¹

In order to be successful in the mobile telecommunications market, it is critical that Metrocall and Arch have the breadth of assets, technology and marketing skills necessary to position themselves and to compete against their formidable competitors such as SkyTel, Nextel, Cingular, Sprint PCS, T-Mobile and Verizon Wireless. These companies have enormous financial, spectrum, and marketing capabilities, and thus have significantly greater resources than the combined company will ever have.

By combining their networks, Arch and Metrocall will combine unique attributes (e.g., distribution channels, network and operating systems), achieve cost efficiencies through the combined company's size, and hold sufficient spectrum to roll out new, innovative products and services in competition with mobile telephony providers with

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This merger will have nothing but positive impacts on customers. As the paging



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Newco intends to file a Form 602 ownership disclosure roughly contemporaneously with this application. At this time it appears that no foreign individual or entity will hold a significant portion of Newco's equity, and that foreign individuals and/or entities will not in the aggregate hold more than 20 percent of Newco's equity.

Newco, which will be owned by the owners of Arch and Metrocall, will retain the legal, technical and financial qualifications of the long-time carriers who combined to create it. Indeed, by consolidating the best aspects of each party's business, Newco will be even stronger financially than either transferor alone, and will recognize cost savings and other efficiencies that will allow for greater technological innovation.