ARCH WIRELESS INC
Form 10-K/A
June 13, 2002

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, 2001

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
(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 13, 2002 was approximately $1,270,000.

The number of shares of Registrant's common stock outstanding on March 13, 2002 was 182,434,590.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The following table sets forth selected historical consolidated financial and operating data of Arch for each of the five years ended December 31, 2001. The selected financial and operating data as of December 31, 1997, 1998, 1999, 2000 and 2001 and for each of the five years ended December 31, 2001 have been derived from Arch's audited consolidated financial statements and notes. The following consolidated financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and notes set forth below.

The extraordinary item is an extraordinary gain or loss resulting from prepayment of indebtedness. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Adjusted earnings before interest, income taxes, depreciation and amortization, as determined by Arch, does not reflect interest, income taxes, depreciation and amortization, other operating expenses, 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 is commonly used by analysts and investors as a principal measure of financial performance in the wireless messaging industry. Adjusted earnings before interest, income taxes, depreciation and amortization is also one of the primary financial measures used to calculate whether Arch and its subsidiaries are in compliance with financial covenants under their debt agreements. These covenants, among other things, limit the ability of Arch and its subsidiaries to: incur additional indebtedness, make investments, pay dividends, grant liens on its assets, merge, sell or acquire assets, repurchase or redeem capital stock, incur capital expenditures and prepay certain indebtedness. Earnings before interest, income taxes, depreciation and amortization is also one of the financial measures used by analysts to value Arch. Therefore Arch management believes that the presentation of earnings before interest, income taxes, depreciation and amortization provides relevant information to investors. 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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Adjusted earnings before interest, income taxes, depreciation and amortization margin is calculated by dividing Arch's adjusted earnings before interest, income taxes, depreciation and amortization by total revenues less cost of products sold. Earnings before interest, income taxes, depreciation and amortization margin is a measure commonly used in the wireless messaging industry as an indicator of the efficiency of a company's operating structure.

	YEAR ENDED DECEMBER 31,			
	1997	1998	1999	20
	(dollars in thousands except per s			
STATEMENTS OF OPERATIONS DATA:				
Revenues	$ 396,841	$ 413,635	$ 641,824	$ 85
Operating expenses:				
Cost of products sold (exclusive of items shown separately below)	29,158	29,953	34,954	3
Service, rental and maintenance (exclusive of items shown separately below)	79,836	80,782	132,400	18
Selling	51,474	49,132	84,249	10
General and administrative (exclusive of items shown separately below)	106,041	112,181	180,726	26
Depreciation and amortization	232,347	221,316	309,434	50
Reorganization expense	--	--	--	
Other operating expenses	--	14,700	(2,200)	
Operating income (loss)	(102,015)	(94,429)	(97,739)	(24
Interest and non-operating expenses, net	(97,159)	(104,213)	(188,249)	(16
Equity in loss of affiliate	(3,872)	(5,689)	(3,200)	
Income (loss) before income tax benefit, extraordinary items and accounting changes	(203,046)	(204,331)	(289,188)	(41
Income tax benefit	21,172	--	--	4
Income (loss) before extraordinary items and accounting changes	(181,874)	(204,331)	(289,188)	(36
Extraordinary items	--	(1,720)	6,963	5
Cumulative effect of accounting changes	--	--	(3,361)	
Net income (loss)	$ (181,874)	$ (206,051)	$ (285,586)	$ (30
Basic/diluted income (loss) per common share before extraordinary items and accounting changes	$ (26.31)	$ (29.34)	$ (9.21)	$
Extraordinary items per basic/diluted common share	--	(0.25)	0.22	
Cumulative effect of accounting changes per basic/diluted common share	--	--	(0.11)	
Basic/diluted net income per common share	$ (26.31)	$ (29.59)	$ (9.10)	$
OTHER OPERATING DATA:				
Capital expenditures, excluding acquisitions	$ 102,769	$ 113,184	$ 113,651	$ 14
Cash flows provided by operating activities	$ 63,590	$ 83,380	$ 99,536	$ 3
Cash flows provided by (used in) investing activities	$ (102,769)	$ (82,868)	$ (627,166)	$ (9
Cash flows provided by (used in) financing activities	$ 39,010	$ (2,207)	$ 529,158	$ 11
Adjusted earnings before interest, income taxes, depreciation and amortization	$ 130,332	$ 141,587	$ 209,495	$ 26
Adjusted earnings before interest, income taxes, depreciation and amortization margin	35%	37%	35%	
Units in service at end of period	3,890,000	4,276,000	6,949,000	11,89

	AS OF DECEMBER 31,			
	1997	1998	1999	20
BALANCE SHEET DATA:			(dollars in thousands	
Current assets	$ 51,025	$ 50,712	$ 85,303	$ 21
Total assets	1,020,720	904,285	1,353,045	2,30
Long-term debt, less current maturities (1)	968,896	1,001,224	1,322,508	1,67
Liabilities subject to compromise (1)	--	--	--	
Redeemable preferred stock (1)	--	--	28,176	3
Stockholders' equity (deficit)	(33,255)	(213,463)	(245,735)	(9

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The following table reconciles net income to the presentation of adjusted earnings before interest, income taxes, depreciation and amortization:

	YEAR ENDED DECEMBER 31,			
	1997	1998	1999	20
		(dollars in thousand)		
Net income (loss)	$ (181,874)	$ (206,051)	$ (285,586)	$ (30
Interest and non-operating expenses, net	97,159	104,213	188,249	16
Income tax benefit	(21,172)	--	--	(4
Depreciation and amortization	232,347	221,316	309,434	50
Reorganization expense	--	--	--	
Other operating expenses	--	14,700	(2,200)	
Equity in loss of affiliate	3,872	5,689	3,200	
Extraordinary item	--	1,720	(6,963)	(5
Cumulative effect of accounting change	--	--	3,361	
Adjusted earnings before interest, income taxes, depreciation and amortization	$ 130,332	$ 141,587	$ 209,495	$ 2

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements and information relating to Arch and its subsidiaries that are based on the beliefs of Arch's management as well as assumptions made by and information currently available to Arch's management. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. When used herein, words such as "anticipate", "believe", "estimate", "expect", "intend" and similar expressions, as they relate to Arch or its management, identify forward-looking statements. Such statements reflect the current views of Arch with respect to future events and are subject to certain risks, uncertainties

and assumptions, including but not limited to those factors set forth below under the caption "Factors Affecting Future Operating Results". Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described herein as anticipated, believed, estimated, expected or intended. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their respective dates. Arch undertakes no obligation to update or revise any forward-looking statements. All subsequent written or oral forward-looking statements attributable to Arch or persons acting on behalf of Arch are expressly qualified in their entirety by the discussion under "Factors Affecting Future Operating Results".

PETITION FOR RELIEF UNDER CHAPTER 11

Certain holders of 12 3/4% Senior Notes due 2007 of Arch Wireless Communications, Inc. ("AWCI"), a wholly-owned subsidiary of Arch, filed an involuntary petition against AWCI on November 9, 2001 under chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the District of Massachusetts, Western Division. On December 6, 2001, AWCI consented to the involuntary petition and the bankruptcy court entered an order for relief with respect to AWCI under chapter 11 of the Bankruptcy Code. Also on December 6, 2001, Arch and 19 of Arch's other wholly-owned, domestic subsidiaries, including Arch Wireless Holdings, Inc. ("AWHI"), filed voluntary petitions for relief, under chapter 11, with the bankruptcy court. These cases are being jointly administered under the docket for Arch Wireless, Inc., et al., Case No. 01-47330-HJB. Arch and its domestic subsidiaries (collectively, the "Debtors") are operating their businesses and managing their property as debtors-in-possession under the Bankruptcy Code.

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. Under chapter 11, a debtor is authorized to continue to operate its business and to reorganize for the benefit of its creditors and stockholders. In addition to permitting the rehabilitation of the Debtor, another goal of chapter 11 is to promote equality of treatment of creditors and equity security holders of equal rank with respect to the restructuring of debt. In furtherance of these two goals, upon the filing of a petition for reorganization under chapter 11, the Bankruptcy Code generally provides for an automatic stay of substantially all acts and proceedings against a debtor and its property, including all attempts to collect claims or enforce liens that arose prior to the commencement of the debtor's case under chapter 11. In addition, the debtors may reject or assume pre-petition executory contracts and unexpired leases, and other parties to contracts or leases that are rejected may assert rejection damage claims as permitted by the Bankruptcy Code.

An official committee of unsecured creditors and a special subcommittee have been appointed in the chapter 11 cases. In accordance with provisions of the Bankruptcy Code, the official committee will have the right to be heard on all matters that come before the bankruptcy court and the subcommittee will have the right to be heard with respect to matters in which its interests diverge from those of the official committee. In addition to the official committee and subcommittee, a steering committee of Arch's secured bank lenders are represented in the chapter 11 cases as an informal committee of secured note holders representing the interests of the USAM noteholders.

Confirmation and consummation of a plan of reorganization are the principal objectives of a chapter 11 reorganization case. A plan of reorganization sets forth the means for satisfying claims against, and interests in, a debtor. Confirmation of a plan requires, among other things, the affirmative vote of creditors holding at least two-thirds in total dollar amount and more than

one-half in number of the allowed claims in each impaired class of claims that vote on the plan, and two-thirds in amount of equity interests in each impaired class of interests that vote on the plan. Section 1129(b) of the Bankruptcy Code, commonly referred to as the "cramdown" provision, permits confirmation of a plan of reorganization over the objection of one or more impaired classes under certain circumstances. Confirmation of a plan of reorganization by a bankruptcy court makes the plan binding upon the debtor, any issuer of securities under the plan, any person acquiring property under the plan and any creditor or equity security holder of the debtor. Subject to certain limited exceptions, the confirmation order discharges the debtor from any debt that arose prior to the effective date of the plan and substitutes the obligations specified under the confirmed plan.

The Debtors filed an amended plan of reorganization with the bankruptcy court on March 13, 2002. The plan provides for separate classes of claims and interests for creditors and equity holders of each of the Debtors. The plan proposes that the holders of AWCI's 9 1/2% Senior Notes due 2004 and AWCI's 14% Senior Notes due 2004 and the lenders under AWHI's credit agreement (collectively, the "Secured Creditors") will receive in the aggregate (1) $200 million of new 10% Senior Secured Notes due 2007 to be issued by AWHI; (2) $100 million of new 12% Senior Subordinated Secured Notes due 2009 to be issued by AWHI; (3) 15,133,098 shares of new common stock to be issued by Arch; and (4) 100% of the cash available for distribution as detailed below. The unsecured creditors of AWHI, including the deficiency claims of secured creditors, and its subsidiaries will receive in the aggregate 3,600,000 shares of new common stock to be issued by Arch, plus a distribution equal to the net proceeds collected from potential avoidance and recovery actions under the Bankruptcy Code. Unsecured creditors of Arch and its subsidiaries other than AWCI and AWHI and its subsidiaries will receive no distribution. The unsecured creditors of AWCI, including the deficiency claims of the secured creditors, will receive a pro rata share of 66,902 shares of new common stock to be issued by Arch. Holders of common and preferred equity interests will receive no distributions under the plan and all equity interests in Arch will be cancelled. The plan also provides for the creation of a management stock plan pursuant to which 1,200,000 shares of new common stock will be distributable to management for a nominal price, one third of which will vest on each of the first three anniversaries following the effective date. Except for the shares of new common stock issuable pursuant to the management stock plan, the new common stock to be issued to the secured and unsecured creditors will constitute 100% of the outstanding common stock on the effective date of the plan of reorganization. The cash available for distribution to the Secured Creditors is an amount of cash equal to the amount by which the Debtors' cash plus the amount of availability under a revolving line of credit, if any, exceeds $45 million less administrative expense claims reasonably expected to be payable for services provided and fees earned through the closing of the transactions contemplated by the plan of reorganization.

CRITICAL ACCOUNTING POLICIES

The following discussion and analysis of financial condition and results of operations are based upon Arch's consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. On an on-going basis, Arch evaluates its estimates and assumptions, including but not limited to those related to the impairment of long-lived assets, reserves for doubtful accounts, revenue recognition and certain accrued liabilities. Arch bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

IMPAIRMENT OF 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 the carrying value of its long-lived assets and certain intangible assets based on estimated undiscounted cash flows to be generated from such assets. In assessing the recoverability of these assets, Arch must project estimated enterprise-level cash flows which are based on various operating assumptions such as average revenue per unit in service, disconnect rates, sales productivity ratios and workforce productivity

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ratios. Management develops these cash flow projections on a periodic basis and continuously reviews the projections based on actual operating trends.

The projections assume that general economic conditions will continue unchanged throughout the projection period and that their potential impact on capital spending and revenues within each of our operating regions will not fluctuate.

Projected revenues are based on our estimate of units in service and average revenue per unit. Projected revenues assume a continued decline in traditional messaging units in service throughout the projection period, which is partially offset by growth of advanced messaging units in service.

Projected operating expenses are based upon historical experience and expected market conditions adjusted to reflect an expected decrease in expenses resulting from assumed synergies achieved from the integration of PageNet and other cost saving initiatives resulting from a projected decline in total revenue.

Arch recorded an impairment charge relating to its long-lived assets of $976.2 million in the second quarter of 2001. If the cash flow estimates, or the significant operating assumptions upon which they are based, change in the future, Arch may be required to record additional impairment charges related to its long-lived assets.

RESERVE FOR DOUBTFUL ACCOUNTS

Estimates are used in determining the reserve for doubtful accounts and are based on historical collection experience, current trends and a percentage of the accounts receivable aging categories. In determining these percentages Arch reviews historical write-offs, including comparisons of write-offs to provisions for doubtful accounts and as a percentage of revenues; Arch compares the ratio of the reserve to gross receivables to historical levels and Arch monitors collections amounts and statistics. Arch's reserve for doubtful accounts was $42.0 million at December 31, 2001. While write-offs of customer accounts have historically been within our expectations and the provisions established, management cannot guarantee that Arch will continue to experience the same write-off rates that it has in the past which could result in material differences in the reserve for doubtful accounts and related provisions for write-offs.

REVENUE RECOGNITION

Arch's revenue consists primarily of monthly service and lease revenues charged to customers on a monthly, quarterly, semi-annual or annual basis. Revenue also includes sales of messaging devices directly to customers,

resellers and third-party retail stores. Arch recognizes revenue over the period the service is performed in accordance with SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services rendered, (3) the fee is fixed and determinable, and (4) collectibility is reasonably assured. Arch believes, relative to sales of one-way messaging equipment, that all of these conditions are met and since the services are deemed not to be essential to the sale of the equipment, product revenue is recognized at the time of shipment.

Arch bundles the sale of two-way messaging equipment with the related service and since, currently the sale of the service is essential to the functionality of the device, Arch does not separately account for the sale of the device and the service. Revenue and the related cost of sales are recognized over the expected customer relationship, which is estimated to be two years. If the assumed length of the customer relationship differed significantly or technology advances resulted in the service being deemed not to be essential to the sale of the device; the timing of revenue and expense amortization and the carrying value of the related deferred revenue and cost could be materially affected. However, Arch's net income or loss would not be materially affected since the amount of revenue and expense amortized are substantially the same amount.

ACCRUED LIABILITIES

Arch incurs significant telephone expenses to support its messaging infrastructure, call centers and office facilities. Telephone vendors generally establish and bill accounts on a cycle basis and generally invoice Arch in arrears for usage based charges. Due to the delay in receipt of invoices and the cycle nature of these charges, Arch estimates telephone-related expenses on a monthly basis based on a historical average of the past three payments on each account. At December 31, 2001, accrued expenses and liabilities subject to compromise include approximately $26 million in accrued telephone expenses. Management currently believes the accrual for telephone charges is adequate, but changes in certain conditions, such as network operating characteristics, provision of more or less of certain services, office and call center reconfigurations or significant changes in call volumes could result in the recognition of more or less telephone-related expense.

OVERVIEW

The following discussion and analysis should be read in conjunction with Arch's consolidated financial statements and notes.

Arch derives the majority of its revenues from fixed monthly or other periodic fees charged to subscribers for wireless messaging services. Such fees are not generally dependent on usage. As long as a subscriber remains on service, operating results benefit from the recurring payments of the fixed periodic fees without incurrence of additional selling expenses. Excluding the effect of definitional changes, Arch's average revenue per unit in service has declined over the last three years for two principal reasons:

- primarily due to an increase in competition in certain of the markets in which Arch operates, particularly competition from telephone, cellular and PCS providers; and
- to a lesser extent, prior to 2001, an increase in the number of reseller customers whose airtime is purchased at wholesale rates.

The reduction in average revenue per unit in service resulting from these trends was offset by the reduction of expenses so that margins were improving

until Arch's merger in June 1999 with MobileMedia which resulted in redundant management and administrative headcount. While the integration of Arch and MobileMedia's operations is complete, the consummation of the PageNet merger in November 2000 also resulted in redundant management and administrative headcount. During 2001, the integration of Arch and PageNet's operations reduced this redundant headcount and as of December 2001 the integration of PageNet's operations was substantially complete.

Arch has achieved significant growth in units in service and adjusted earnings before interest, income taxes, depreciation and amortization through acquisitions and, prior to 1999, internal growth. During 1999, units in service decreased by 89,000 units, excluding the addition of subscribers from the MobileMedia acquisition. As a result of the MobileMedia and PageNet acquisitions units in service were adjusted to eliminate intercompany accounts and to reflect a common definition of units in service. During 2000, units in service decreased by 2,073,000 units, 888,000 due to subscriber cancellations and 1,185,000 due to definitional changes, excluding the addition of subscribers from the PageNet acquisition. During 2001, units in service decreased by an additional 3,394,000 units due to subscriber cancellations. Arch believes it will experience a substantial net decline in the number of units in service during 2002 as the number of two-way messaging subscribers added will be substantially less than the number of traditional messaging subscribers lost. Arch's ability to compete against telephone, cellular and PCS providers providing two-way messaging services is as yet unproven.

From January 1, 1999 through December 31, 2001, Arch's total number of units in service grew from 4.3 million to 8.5 million units entirely due to the MobileMedia and PageNet acquisitions offset by subscriber cancellations. Arch's total revenues have increased from $641.8 million in the year ended December 31, 1999 to $851.1 million in the year ended December 31, 2000 and to $1,163.5 million in the year ended December 31, 2001. Arch had net losses of $285.6 million, $309.8 million and $1,569.1 million in the years ended December 31, 1999, 2000 and 2001, respectively, as a result of significant depreciation and amortization expenses related to acquired and developed assets, including an impairment charge of $976.2 million on certain long-lived assets in 2001, and interest charges associated with indebtedness. As its subscriber base has grown, Arch's adjusted earnings before interest, income taxes, depreciation and amortization has increased from $209.5 million in the year ended December 31, 1999 to $261.1 million in the year ended December 31, 2000 and to $287.6 million in the year ended December 31, 2001.

Earnings before interest, income taxes, depreciation and amortization is a commonly used measure of financial performance in the wireless messaging industry. Adjusted earnings before interest, income taxes, depreciation and amortization is one of the financial measures used to calculate whether Arch and its subsidiaries are in compliance with covenants under their respective debt agreements. Adjusted 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. One of Arch's financial objectives is to increase its adjusted earnings before interest, income taxes, depreciation and amortization, since this is a significant source of funds for servicing indebtedness and for investment in continued growth, including the purchase of messaging devices, messaging system equipment, construction and expansion of messaging systems and possible acquisitions. Adjusted earnings before interest, income taxes, depreciation and amortization, as determined by Arch, may not necessarily be comparable to similarly titled data of other wireless messaging companies. Amounts reflected as 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 or future indebtedness, including the repayment of such indebtedness or the payment of associated interest, limitations imposed by applicable law upon the payment of

dividends or distributions or capital expenditure requirements.

PAGENET MERGER

On November 10, 2000, Arch completed its acquisition of 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 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.

During the fourth quarter of 2000, Arch management commenced the development of plans to integrate PageNet operations, including the elimination of redundant headcount and facilities. Integration of PageNet's operations was substantially complete by December 31, 2001. Since Arch anticipated a net reduction of approximately 50% of PageNet's workforce and the closing of certain facilities, it established a $76.0 million acquisition reserve which was included as part of the purchase price of PageNet. The initial acquisition reserve consisted of approximately:

- $66.1 million for employee severance;
- $9.4 million for lease obligations and terminations; and
- $0.5 million of other costs.

The PageNet acquisition reserve activity during 2001 was as follows (in thousands):

	Balance at December 31, 2000	Reserve Adjustment in 2001	Amounts Paid	Remaining Reserve
Severance costs.........	$ 36,765	$ 10,900	$ 46,071	$ 1,594
Lease obligation costs..	9,264	11,062	10,306	10,020
Other costs.............	500	--	350	150
Total...................	$ 46,529	$ 21,962	$ 56,727	$ 11,764

The remaining reserve balance at December 31, 2001 has been included in liabilities subject to compromise on the Consolidated Balance Sheet and in accordance with SOP 90-7 has not been adjusted to reflect the potential reductions due to rejecting the underlying leases pursuant to Arch's chapter 11 bankruptcy proceedings.

MOBILEMEDIA MERGER

In June 1999, Arch acquired MobileMedia Communications, Inc. Arch acquired MobileMedia for a combination of cash and Arch securities, as follows:

- Arch paid approximately $479.0 million in cash to secured creditors of MobileMedia;
- Arch paid a total of $37.6 million of fees, expenses and other debts;
- Arch issued 4,781,656 shares of its common stock to unsecured creditors of MobileMedia;
- Arch issued 36,207,265 additional shares of its common stock to unsecured creditors of MobileMedia and Arch stockholders for a total purchase price of $217.2 million; and

Subsidiaries of Arch also borrowed a total of $320.8 million to help fund the MobileMedia acquisition.

RESULTS OF OPERATIONS

The following table presents certain items from Arch's consolidated statements of operations as a percentage of net revenues and certain other information for the periods indicated (dollars in thousands except per unit data):

	YEAR ENDED DECEMBER 31,		
	1999	2000	2001
Total revenues	105.8%	104.4%	103.8%
Cost of products sold	(5.8)	(4.4)	(3.8)
Net revenues	100.0	100.0	100.0
Operating expenses:			
Service, rental and maintenance	21.8	22.4	27.3
Selling	13.9	13.1	12.3
General and administrative	29.8	32.4	34.7
Depreciation and amortization	51.0	61.4	141.3
Other operating expenses	(0.4)	0.7	14.5
Operating income (loss)	(16.1)%	(30.0)%	(130.1)%
Net income (loss)	(47.1)%	(38.0)%	(139.9)%

YEAR ENDED DECEMBER 31, 2001 COMPARED WITH YEAR ENDED DECEMBER 31, 2000

Revenues increased to $1,163.5 million, a 36.7% increase, in 2001 from $851.1 million in 2000 reflecting a full year of the results of the acquired PageNet operations, offset by the decline in units in service from 11.9 million at December 31, 2000 to 8.5 million at December 31, 2001. Net revenues (revenues less cost of products sold) increased to $1,121.2 million, a 37.5% increase, in 2001 from $815.2 million in 2000. Revenues and net revenues in 2000 and 2001 were adversely affected by the declining demand for traditional paging services which led to subscriber cancellations of 3,394,000 units in service in 2001.

Two-way messaging revenues increased to $101.4 million, 8.7% of total revenue, in 2001 from $9.4 million, 1.1% of total revenue, in 2000. Two-way messaging net revenues increased to $85.6 million, 7.6% of total net revenue, in 2001 from $9.4 million, 1.2% of total net revenues, in 2000. The Company did not begin to sell its two-way messaging products and services on a commercial scale until August 2000. Two-way units in service increased from 158,000 at December 31, 2000 to 324,000 at December 31, 2001.

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

Arch believes the demand for traditional messaging services declined in 2000 and in 2001, and will continue to decline in the foreseeable future. Arch

believes that future growth in the wireless messaging industry, if any, will be attributable to two-way messaging and information services. As a result, Arch expects to continue to experience significant declines of units in service during 2002, as Arch's addition of two-way messaging subscribers will be exceeded by its loss of traditional messaging subscribers.

Service, rental and maintenance expenses, which consist primarily of telephone, third party carrier fees, site rental expenses and repairs and maintenance expenses, increased to $306.3 million, or 27.3% of net revenues, in 2001 from $183.0 million, or 22.4% of net revenues in 2000. The increase in dollar amount was due to the acquisition of PageNet in November 2000. Since many of these costs are fixed in the short term, Arch has not been able to reduce its service, rental and maintenance expenses at the same rate of decline as units in service and net revenues, resulting in an increase as a percentage of net revenues. For 2001, there were $46.1 million of service, rental and maintenance expenses associated with the provision of two-way messaging and information services, compared to $12.3 million in 2000. This increase is due to the inclusion of a full year of PageNet operations in 2001.

Selling expenses increased to $138.3 million, or 12.3% of net revenues, in 2001 from $107.2 million, or 13.2% of net revenues, in 2000. The increase in dollar amount was due to the acquisition of PageNet. Selling expenses related to two-way messaging and information services were $32.0 million in 2001 compared to $6.5 million in 2000. This increase was due to a full year of advanced messaging sales in 2001 compared to five months in 2000.

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General and administrative expenses increased to $389.0 million, or 34.7% of net revenues, in 2001 from $263.9 million, or 32.4% of net revenues in 2000. The increase was due to increased headcount, administrative and facility costs associated with PageNet operations and increased accounts receivable loss provisions offset by various cost savings initiatives. These initiatives included workforce reductions, facilities closures and operating division consolidations which resulted in annualized savings of approximately $144 million. The accounts receivable loss provisions increased to $56.9 million in 2001 from $33 million in 2000, due primarily to a full year of PageNet operations. General and administrative expenses associated with the provision of two-way messaging and information services were $14.4 million in 2001 compared to $6.9 million in 2000.

Depreciation and amortization expense increased to $1,584.5 million in 2001 from $500.8 million in 2000. The increase was principally due to a $976.2 million impairment charge, recorded in June 2001, related to certain one-way messaging equipment, computer equipment and intangible assets. This charge was determined based upon management's projections of future cash flows. Since the future undiscounted cash flows did not exceed the carrying value of the long-lived assets, an impairment existed. The fair value of the assets was determined based on a discounted cash flow analysis and the difference in carrying value and fair value resulted in the charge. See Note 4 to the Consolidated Financial Statements. The remaining increase in these expenses reflects the acquisition of PageNet.

Other operating expenses in 2001 consisted of $154.9 million of reorganization costs, $5.9 million associated with Arch's prior recapitalization plan which was subsequently withdrawn and $2.0 million of restructuring charges. The reorganization costs include the accretion of $133.8 million of debt discounts, the write off of $11.8 million of deferred financing fees and $9.3 million of professional and other fees associated with the bankruptcy filing. In 2000, other operating expenses consisted solely of restructuring costs. See Notes 2 and 11 to the Consolidated Financial Statements.

Operating losses were $1,459.7 million in 2001 compared to $245.1 million in 2000 as a result of the factors outlined above.

Net interest expense increased to $226.9 million in 2001 from $166.2 million in 2000. The increase was principally attributable to an increase in Arch's outstanding debt due to the PageNet acquisition partially offset by lower interest rates during 2001. Interest expense for 2000 and 2001 included approximately $28.3 million and $37.2 million, respectively, of accretion on assumed bank debt and Arch's senior debt, the payment of which was deferred.

Other expense increased to $31.9 million in 2001 from $3.1 million in 2000. In 2001, other expense included a $15.0 million charge related to changes in the market value of certain interest rate swaps which have not been designated as a hedge for accounting purposes and a $7.5 million charge resulting from the write-off of a note receivable from Vast Solutions, Inc., which filed for bankruptcy in April 2001.

In 2000 and 2001, Arch recognized extraordinary gains of $58.6 million and $34.2 million, respectively, on the retirement of debt exchanged for Arch stock.

Arch recognized an income tax benefit of $46.0 million and $122.0 million in 2000 and 2001, respectively. The benefit represented the tax benefit of operating losses incurred subsequent to the acquisition of PageNet, which were available to offset deferred tax liabilities arising from the PageNet acquisition.

On January 1, 2001, Arch adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 requires that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value and that changes in the derivative's fair value be recognized in earnings. Initial application of SFAS No. 133 resulted in a $6.8 million charge in the quarter ended March 31, 2001, which was reported as the cumulative effect of a change in accounting principle. This charge represents the impact of initially recording the derivatives at fair value as of January 1, 2001. All of Arch's derivative instruments were terminated during 2001.

Net loss increased to $1,569.1 million in 2001 from $309.8 million in 2000, as a result of the factors outlined above.

YEAR ENDED DECEMBER 31, 2000 COMPARED WITH YEAR ENDED DECEMBER 31, 1999

Revenues increased to $851.1 million, a 32.6% increase, in 2000 from $641.8 million in 1999 as the number of units in service increased from 6.9 million at December 31, 1999 to 11.9 million at December 31, 2000 due to the PageNet acquisition in November 2000. Net revenues (revenues less cost of products sold) increased to $815.2 million, a 34.3% increase, at December 31, 2000 from $606.9 million at December 31 1999. Revenues and net revenues in 1999 and 2000 were adversely affected by (1) the declining demand for traditional messaging services and (2) subscriber cancellations which led to a decrease of 888,000 units in service for the year ended December 31, 2000.

Product sales represented less than 10% of total service, rental and maintenance revenues in 2000 and 1999.

Service, rental and maintenance expenses, increased to $183.0 million, or 22.4% of net revenues, in 2000 from $132.4 million, or 21.8% of net revenues, in 1999. Approximately half of this increase was due to the acquisition of PageNet

in November 2000. The remaining increase was primarily due to a full year of expenses for the provision of alphanumeric and nationwide messaging services to a higher percentage of customers which resulted from the MobileMedia acquisition in June 1999. In 2000, there was $12.3 million of service, rental and maintenance expenses associated with the provision of two-way messaging and information services.

Selling expenses increased to $107.2 million, or 13.2% of net revenues, in 2000 from $84.2 million, or 13.9% of net revenues, in 1999. Approximately one-third of this increase in dollar amount was due to the acquisition of PageNet. The remaining increase in dollar amount was primarily due to a full year of increased headcount associated with the MobileMedia acquisition. Selling expenses related to two-way messaging and information services were $6.5 million in 2000.

General and administrative expenses increased to $263.9 million, or 32.4% of net revenues, in 2000 from $180.7 million, or 29.8% of net revenues, in 1999. Approximately one-third of the increase was due to increased headcount, administrative and facility costs associated with the PageNet operations. The remaining increase was primarily due to a full year of increased headcount, administrative and facility costs associated with MobileMedia. General and administrative expenses associated with the provision of two-way messaging and information services were $6.9 million in 2000.

Depreciation and amortization expenses increased to $500.8 million in 2000 from $309.4 million in 1999. The increase in these expenses principally reflected the acquisition of PageNet and a full year of depreciation and amortization of the assets purchased in the MobileMedia acquisition. This increase also included $19.3 and $103.5 million of incremental depreciation and amortization expense, respectively, as a result of reducing the remaining lives on messaging equipment and certain intangible assets.

Operating losses were $245.1 million in 2000 compared to $97.7 million in 1999, as a result of the factors outlined above.

Net interest expense increased to $166.2 million in 2000 from $143.0 million in 1999. The increase was principally attributable to an increase in Arch's outstanding debt due to the MobileMedia and PageNet acquisitions. Interest expense for 1999 and 2000 included approximately $41.6 million and $28.3 million, respectively, of accreted interest on Arch's senior debt, the payment of which was deferred.

In 2000 and 1999, Arch recognized extraordinary gains of $58.6 million and $7.0 million, respectively, on the retirement of debt exchanged for Arch stock.

Arch recognized an income tax benefit of $46.0 million in 2000. The benefit represented the tax benefit of operating losses incurred subsequent to the acquisition of PageNet which were available to offset deferred tax liabilities arising from the PageNet acquisition.

Net loss increased to $309.8 million in 2000 from $285.6 million in 1999, as a result of the factors outlined above.

LIQUIDITY AND CAPITAL RESOURCES

As noted earlier, Arch, and substantially all of its domestic subsidiaries, filed for chapter 11 bankruptcy protection on December 6, 2001 and subsequently entered into a debtor-in-possession credit facility (see "Sources of Funds"). The matters discussed under this caption "Liquidity and Capital Resources," to the extent that they relate to future events or expectations, may be significantly affected by the chapter 11 reorganization. The proceedings

relating to the chapter 11 case involve, or result in, various restrictions on Arch's activities, limitations on financings, the need to obtain bankruptcy court approval for various matters and uncertainty as to relationships with venders, suppliers, customers and others with whom Arch may conduct or seek to conduct business. At December 31, 2001, Arch had $72.2 million in cash and cash equivalents. As more fully described below under the heading "Capital Expenditures and Commitments - Cash Collateral Stipulation," Arch is required to repay certain amounts to the secured lenders on a monthly basis. In addition, the plan of reorganization filed on January 15, 2002, as amended on March 13, 2002, proposes that Arch will repay the secured creditors to the extent the cash balance plus available borrowings under a revolving credit facility, if any, less a reserve for reasonable anticipated administrative expenses exceeds $45 million.

Arch's business requires the availability of substantial funds to finance capital expenditures for subscriber equipment and network system equipment and to service debt once Arch emerges from chapter 11.

Arch's net cash flows from operating, investing and financing activities for the periods indicated in the table below are as follows:

	YEAR END	
	1999	
	(dollar	
Net cash provided by operating activities................................	$ 99.5	$
Net cash (used in) provided by investing activities.......................	$ (627.2)	$
Net cash provided by (used in) financing activities.......................	$ 529.2	$

Investing activities in 2001 included a cash inflow of $175 million from the sale of FCC licenses. Investing activities in 1999 and 2000 included a cash outflow of $516.6 million and a cash inflow of $47.8 million for the acquisitions of MobileMedia and PageNet, respectively. Financing activities in 2001 included cash repayments of debt of $178.1 million offset by proceeds from the sale of preferred stock of $75 million. Financing activities in 2000 included borrowings of $175.0 million offset by cash repayments of debt of $63.6 million. Financing activities in 1999 included $217.2 million from the sale of common stock to unsecured creditors of MobileMedia and borrowings of $320.8 million in connection with the acquisition of MobileMedia as described above.

CAPITAL EXPENDITURES AND COMMITMENTS

Arch has operating leases for office and transmitting sites with lease terms ranging from one month to approximately fifty years. Minimum annual lease payments on operating leases having initial or remaining noncancellable lease terms in excess of one year during the years 2002 through 2006 are $104.8 million, $55.8 million, $43.6 million, $32.7 million and $23.0 million, respectively. Excluding acquisitions of wireless messaging businesses, Arch's capital expenditures were $113.7 million in 1999, $140.3 million in 2000 and $109.5 million in 2001. To date, Arch generally has funded its capital expenditures with net cash provided by operating activities and the incurrence of debt.

Arch's 2001 capital expenditures primarily involved the purchase of wireless messaging devices, system and transmission equipment and information systems.

Arch estimates that capital expenditures for 2002-2003 will be approximately $100 million per year. These expenditures will be used primarily for subscriber equipment, network infrastructure, information systems and expansion of Arch's two-way messaging network. However, the actual amount of capital required by Arch will depend on a number of factors, including; subscriber growth, the type of products and services demanded by customers, service revenues, and the nature and timing of Arch's strategy to enhance its two-way messaging networks.

Cash Collateral Stipulation

In connection with the bankruptcy filing, if the aggregate average daily cash balance for any fiscal month exceeds $45 million, Arch is required to pay the pre-petition secured lenders such excess less amounts due under the DIP credit facility, provided, however, that after such payment the aggregate cash balance shall not be less than $45 million. Such cash payment is to be applied to the outstanding principal amount of the pre-petition secured debt. During the first two months of 2002, Arch made payments of $42.6 million to the pre-petition secured lenders.

SOURCES OF FUNDS

DIP Credit Facility

In connection with the bankruptcy filing, Arch obtained a $50 million debtor-in-possession credit facility from a group of lenders led by Toronto Dominion (Texas), Inc. which expires the earlier of December 5, 2002 or the effective date of a confirmed plan of reorganization. Arch's availability under this facility is the lesser of $50 million or a calculated borrowing base, which is derived based on eligible accounts receivable, as defined in the agreement. Availability at December 31, 2001 was approximately $30 million. The interest rate is LIBOR plus 3.25% or the bank's base rate plus 2.25%, if outstanding borrowings are less than $25 million. If outstanding borrowings are greater than $25 million, the interest rate is LIBOR plus 4% or the bank's base rate plus 3%. The facility has a commitment fee of 0.5% per annum on unused portions, payable monthly, and a quarterly collateral agent fee of $25,000. There were no borrowings outstanding under the facility at December 31, 2001. This facility is secured by a first priority security interest in all of the pre-petition and post-petition assets of the Debtors and is entitled to super priority expense of administration in the bankruptcy proceeding.

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

- declare dividends or redeem or repurchase capital stock;

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- 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 DIP credit facility requires Arch and its subsidiaries to meet certain financial covenants, including minimum earnings before interest, income taxes, depreciation and amortization, minimum direct units in service, minimum service revenue and maximum capital expenditures. As of December 31, 2001, Arch and its operating subsidiaries were in compliance with the covenants of the DIP credit facility.

Sale of SMR Licenses

In January 2001, Arch announced an agreement with Nextel Communications, Inc. to sell its Specialized Mobile Radio ("SMR") licenses to Nextel for an aggregate purchase price of $175 million. Concurrent with this transaction, Nextel agreed to invest $75 million in Arch Series F 12% Redeemable Cumulative Junior Preferred Stock.

Pursuant to these transactions, in February 2001, Nextel advanced $250 million to Arch in the form of a $175 million loan secured by a pledge of the shares of the Arch subsidiary which owned the SMR licenses, and a $75 million unsecured loan. Upon receipt of regulatory approvals, the SMR licenses were transferred to Nextel and the principal amount of the $175 million loan was satisfied in consideration for such transfer, and the principal amount of the $75 million unsecured loan together with interest due on both loans was exchanged for shares of Arch Series F Preferred stock.

Arch used $175.2 million of the proceeds from these transactions to prepay all required 2001 amortization payments under its senior credit facility. The remaining $74.8 million of proceeds, was available for working capital purposes.

Credit Facility

At December 31, 2001, an Arch subsidiary had a senior credit facility in the amount of $1,119.6 million consisting of (1) a $122.5 million Tranche A reducing revolving facility, (2) a $64.1 million Tranche B term loan, (3) a $662.7 million Tranche B-1 term loan and (4) a $270.3 million Tranche C term loan. As a result of the chapter 11 cases, Arch has classified all of this debt as liabilities subject to compromise on the Consolidated Balance Sheet.

Adequacy of Capital Resources

As discussed above, Arch and its domestic subsidiaries are operating their businesses as debtors-in-possession under chapter 11 of the bankruptcy code. In addition to the cash requirements necessary to fund ongoing operations, Arch anticipates that it will incur significant professional fees and other restructuring costs in connection with the chapter 11 case and the restructuring of its business operations. However, based on current and anticipated levels of operations, and efforts to effectively manage working capital, Arch anticipates that its cash flow from operations, together with cash on hand will be adequate to meet its anticipated cash requirements during the pendency of the chapter 11 case and, following confirmation and consummation of the plan of reorganization, for the foreseeable future.

In the event that cash flows are not sufficient to meet future cash requirements, Arch may be required to reduce planned capital expenditures, sell assets or seek additional financing. Arch can provide no assurances that reductions in planned capital expenditures or proceeds from asset sales would be sufficient to cover shortfalls in available cash or that additional financing would be available or, if available, offered on acceptable terms.

INFLATION

Inflation has not had a material effect on Arch's operations to date. Systems equipment and operating costs have not increased in price and the price of wireless messaging devices have tended to decline in recent years. This reduction in costs has generally been reflected in lower prices charged to subscribers who purchase their wireless messaging devices. Arch's general operating expenses, such as salaries, employee benefits and occupancy costs, are subject to normal inflationary pressures.

FACTORS AFFECTING FUTURE OPERATING RESULTS

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

Arch's plan of reorganization may not be confirmed by the bankruptcy court; confirmation is essential for Arch to continue its operations.

Our bankruptcy filing could present us with additional challenges, including: possible problems with our relationships with our creditors, customers, suppliers and employees; our ability to attract and retain key employees; and the ability to confirm and implement the plan of reorganization.

There are numerous factors that may prevent confirmation of the plan, including the rejection of the plan by the various classes of claims and interest holders. There are no assurances that a plan of reorganization will be confirmed which is necessary and essential for us to continue our operations. The plan that we filed with the bankruptcy court on January 15, 2002, as amended on March 11, 2002, provides, among other things, that shareholders and unsecured creditors of Arch will receive no distribution under the plan. As a result, each of these classes of creditors and equity holders is deemed to have rejected the plan. In order to obtain confirmation of the plan, Arch and its domestic subsidiaries will have to employ the cramdown provisions of the Bankruptcy Code. While Arch believes that the plan meets the cramdown requirements, Arch expects that certain unsecured creditor groups will oppose confirmation of the plan.

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

In 1999, Arch experienced a decrease of 89,000 units in service, excluding the addition of subscribers from the MobileMedia acquisition. During 2000, units in service decreased by 2,073,000 units, 888,000 due to subscriber cancellations and 1,185,000 due to definitional changes, excluding the addition of subscribers from the PageNet acquisition. During 2001, units in service decreased by an additional 3,394,000 units due to subscriber cancellations. Arch believes the traditional messaging industry did not grow during 1999, the demand for traditional messaging services declined in 2000 and 2001 and will continue to decline in the following years and that future growth in the wireless messaging industry, if any, will be attributable to two-way messaging and information services. As a result, Arch expects to continue to experience significant declines of units in service and revenue during 2002 as Arch's addition of two-way messaging subscribers will be exceeded by its loss of traditional messaging subscribers.

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

Because Arch depends on Motorola for pagers, on Glenayre for other equipment and on a limited number of vendors for satellite transmission and a concentration of vendors for site leases. Arch's operations may be disrupted if it is unable to

obtain equipment or services from them in the future.

Arch does not manufacture any of the equipment customers need to take advantage of its services. It is dependent primarily on Motorola, Inc. to obtain sufficient equipment inventory for new subscribers and replacement needs and on Glenayre Electronics, Inc. for sufficient terminals and transmitters to meet its expansion and replacement requirements. Both Motorola and Glenayre have publicly announced their intentions to discontinue the production of messaging devices and network equipment. Arch has entered into a supply agreement with Motorola pursuant to which Motorola will supply Arch with a sufficient number of messaging devices to meet expected inventory requirements through September 30, 2002. In February 2002, Motorola announced that Multitone Electronics will assume Motorola's role in the messaging industry as a provider of the devices deployed by Arch. Following a transition period estimated to last approximately nine months, Multitone will continue the manufacture of POCSAG, FLEX and ReFLEX protocol-based devices used to provide Arch's one way and two way messaging services. In addition, Arch has entered into development agreements with certain other vendors to obtain alternative sources of messaging devices and network equipment. Significant delays in developing these alternative sources could lead to disruptions in operations and adverse financial consequences. There can be no assurance that Arch will be able to secure alternative sources of messaging devices and network equipment.

Approximately 35% of Arch's lease payments for tower sites are made to two site lease lessors. Arch is currently negotiating amendments to these and other long term lease arrangements with these and other lessors. There can be no assurances that these negotiations will result in amendments to existing lease arrangements that will allow Arch to reduce future lease payments as a result of Arch's efforts to reduce the number of tower sites it leases through rationalization of Arch's existing messaging networks. If no agreement is reached, there could be a material adverse effect on Arch's ability to reduce its future operating costs.

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

Mobile, cellular and PCS telephone companies have introduced phones and services with substantially the same features and functions as the two-way messaging products and services provided by Arch, and have priced such devices and services competitively.

Arch faces competition from other messaging providers in all markets in which it operates, as well as from cellular and PCS telephone companies. Providers of mobile wireless phone services now include wireless messaging as an adjunct service to voice services. In addition, the availability of coverage for mobile phone services has increased, making the two types of service and product offerings more comparable. Thus, cellular and PCS companies seeking to provide wireless messaging services may be able to bring their products to market faster, at lower prices or in packages of products that consumers and businesses find more valuable than those provided by Arch. In addition, many of these competitors, particularly cellular and PCS phone companies, possess greater financial, technical and other resources than those available to Arch.

Arch may need additional capital to expand or operate its business which could be difficult to obtain. Failure to obtain additional capital may preclude Arch from developing or enhancing its products, taking advantage of future

opportunities, growing its business or responding to competitive pressures.

The amount of capital required by Arch will depend on a number of factors, including:

- subscriber growth;
- the type of wireless messaging devices and services demanded by customers;
- service revenues;
- technological developments;
- marketing and sales expenses and o competitive conditions.

The funds to finance Arch's future capital needs are expected to be generated from operations. No assurance can be given that Arch will be able to generate sufficient cash flow to finance its future capital needs. If cash flow from operations is not sufficient, no assurance can be given that additional equity or debt financing will be available to Arch when needed on acceptable terms, if at all.

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

RECENT AND PENDING ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS No. 141"), "Business Combinations." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method.

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." Arch adopted the requirements of SFAS No. 142 effective January 1, 2002. SFAS No. 142 requires companies to test all goodwill for impairment and to cease amortization of this asset. Arch did not have any goodwill on its balance sheet as of January 1, 2002 and therefore the adoption of SFAS No. 142 had no impact on Arch's results of operations or financial condition.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets." Adoption of this standard is required no later than the first quarter of 2002. Arch is evaluating the impact of adoption of this standard and has not yet determined the effect of adoption on its financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and schedules listed in Item 14(a)(1) and (2) are included in this Report beginning on Page F-1.

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, 2000 and 2001
Consolidated Statements of Operations for Each of the Three Years in the Period Ended December 31, 2001
Consolidated Statements of Stockholders' Equity (Deficit) for Each of the Three Years in the Period Ended December 31, 2001

Consolidated Statements of Cash Flows for Each of the Three Years in the Period Ended December 31, 2001
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.

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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)

June 13, 2002

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Consolidated Statements of Cash Flows for Each of the Three Years in the Period Ended December 31, 2001..

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, 2000, as restated (see Note 14), and 2001, and the related consolidated statements of operations, stockholders' equity (deficit), as restated (see Note 14), and cash flows for each of the three years in the period ended December 31, 2001. 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, 2000, as restated (see Note 14), and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, on December 6, 2001, the Company and substantially all of its domestic subsidiaries voluntarily filed for protection under Chapter 11 of the United States Bankruptcy Code, which raises substantial doubt about the Company's ability to continue as a going concern in its present form. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As explained in Note 1 to the financial statements, effective January 1, 2001, the Company changed its method of accounting for derivative instrument and hedging activities in accordance with Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities".

/s/ ARTHUR ANDERSEN LLP

Boston, Massachusetts
March 7, 2002 (except
for the matter discussed in
Note 15 as to which the date
is May 29, 2002)

ARCH WIRELESS, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	December 31, 2000	200
	RESTATED	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 55,007	$ 72
Accounts receivable (less reserves of $62,918 and $41,987 in 2000 and 2001, respectively)	134,396	90
Inventories	2,163	
Restricted cash	--	34
Prepaid expenses and other	19,877	46
Total current assets	211,443	244
Property and equipment, at cost:		
Land, buildings and improvements	36,334	38
Messaging and computer equipment	1,347,468	1,341
Furniture, fixtures and vehicles	58,270	58
	1,442,072	1,437
Less accumulated depreciation and amortization	444,650	1,031
Property and equipment, net	997,422	406
Intangible and other assets (less accumulated amortization of $697,446 and $1,518,461 in 2000 and 2001, respectively)	1,100,744	1
	$ 2,309,609	$ 651
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Liabilities not subject to compromise:		
Current liabilities:		
Current maturities of long-term debt	$ 177,341	$ 67
Accounts payable	55,282	9
Accrued restructuring charges	60,424	
Accrued expenses	102,959	66
Accrued interest	39,140	
Customer deposits	18,273	10
Deferred revenue	44,227	43
Total current liabilities	497,646	197
Long-term debt, less current maturities	1,679,219	
Other long-term liabilities	74,509	14
Deferred income taxes	121,994	
Liabilities subject to compromise	--	2,096

Commitments and contingencies		
Redeemable preferred stock	30,505	
Stockholders' equity (deficit):		
Common stock--$.01 par value, authorized 320,000,000 shares, issued and outstanding: 161,536,656 and 182,434,590 shares in 2000 and 2001, respectively	1,615	1
Class B common stock--$.01 par value, authorized 10,000,000 shares; issued and outstanding: 1,991,945 and no shares in 2000 and 2001, respectively	20	
Additional paid-in capital	1,095,779	1,107
Accumulated other comprehensive income	(82)	1
Accumulated deficit	(1,191,596)	(2,767
Total stockholders' equity (deficit)	(94,264)	(1,656
	$ 2,309,609	$ 651

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, 1999	2000	
Revenues	$ 641,824	$ 851,082	$ 1
Operating expenses:			
Cost of products sold (exclusive of items shown separately below)	34,954	35,861	
Service, rental and maintenance (exclusive of items shown separately below)	132,400	182,993	
Selling	84,249	107,208	
General and administrative (exclusive of items shown separately below)	180,726	263,901	
Depreciation and amortization	309,434	500,831	1
Reorganization expense	--	--	
Other operating expenses	(2,200)	5,425	
Total operating expenses	739,563	1,096,219	2
Operating income (loss)	(97,739)	(245,137)	(1
Interest expense (2001 unrecorded contractual interest $12,963)	(144,924)	(167,621)	
Interest income	1,896	1,451	
Other expense	(45,221)	(3,082)	
Equity in loss of affiliate	(3,200)	--	

Income (loss) before income tax benefit, extraordinary items and cumulative effect of changes in accounting principle	(289,188)	(414,389)	(1
Benefit from income taxes	--	46,006	
Income (loss) before extraordinary items and cumulative effect of changes in accounting principle	(289,188)	(368,383)	(1
Extraordinary gain (loss) from early extinguishment of debt	6,963	58,603	
Cumulative effect of changes in accounting principle ..	(3,361)	--	
Net income (loss)	(285,586)	(309,780)	(1
Accretion of redeemable preferred stock	--	(4,223)	
Preferred stock dividend	(2,146)	(2,329)	
Net income (loss) applicable to common stockholders ...	$ (287,732)	$ (316,332)	$ (1
Basic/diluted income (loss) per common share before extraordinary item and cumulative effect of changes in accounting principle	$ (9.21)	$ (4.86)	$
Extraordinary gain (loss) from early extinguishment of debt per basic/diluted common share	0.22	0.76	
Cumulative effect of changes in accounting principle per basic/diluted common share	(0.11)	--	
Basic/diluted net income (loss) per common share	$ (9.10)	$ (4.10)	$
Basic/diluted weighted average number of common shares outstanding	31,603,410	77,122,659	178

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)
RESTATED

	Common Stock	Class B Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumula Defici
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
Net loss............................	--	--	--	--	(1,569,1
Foreign currency translation adjustments........................	--	--	--	2,073	
Total comprehensive loss...........					
Issuance of 18,905,989 shares of common stock in exchange for debt...	189	--	11,454	--	
Conversion of Class B common stock into common stock..................	20	(20)	--	--	
Preferred stock dividend.............	--	--	--	--	(7,2
Balance, December 31, 2001..............	$ 1,824	$ --	$1,107,233	$ 1,991	$(2,767,9

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 31		
	1999	2000	2
Cash flows from operating activities:			
Net income (loss)	$ (285,586)	$ (309,780)	$(1,569
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	309,434	500,831	1,584
Non-cash reorganization costs	--	--	145
Deferred income tax benefit	--	(46,006)	(121
Extraordinary loss (gain) from early extinguishment of debt	(6,963)	(58,603)	(34
Cumulative effect of accounting change	3,361	--	6
Equity in loss of affiliate	3,200	--	
Accretion of discount on long-term debt	41,566	28,277	37
Other non-cash interest expense	2,904	2,361	6
Gain on tower site sale	(1,871)	(1,983)	(3
Write-off of note receivable	--	--	7
Write-off of N-PCS investments	37,498	--	
Loss on sale of FCC licenses	--	--	2
Accounts receivable loss provision	15,265	33,015	56
Changes in assets and liabilities, net of effect from acquisitions of companies:			
Accounts receivable	(18,369)	(41,129)	(12
Inventories	1,728	7,381	1
Prepaid expenses and other	7,000	6,944	(26
Accounts payable and accrued expenses	(2,986)	(74,550)	(27
Customer deposits and deferred revenue	(7,554)	(8,495)	(7
Other long-term liabilities	909	(5,938)	
Net cash provided by operating activities	99,536	32,325	47
Cash flows from investing activities:			
Additions to property and equipment, net	(95,208)	(127,833)	(105
Additions to intangible and other assets	(18,443)	(12,452)	(3
Sale of FCC licenses	--	--	175
Net proceeds from tower site sale	3,046	--	
Acquisition of companies, net of cash acquired	(516,561)	47,785	
Net cash (used for) provided by investing activities	(627,166)	(92,500)	65
Cash flows from financing activities:			
Issuance of long-term debt	473,783	174,960	7
Repayment of long-term debt	(162,059)	(63,560)	(178
Net proceeds from sale of preferred stock	--	--	75
Net proceeds from sale of common stock	217,434	596	
Net cash provided by (used in) financing activities	529,158	111,996	(95
Effect of exchange rate changes on cash	--	25	

Net (decrease) increase in cash and cash equivalents	1,528	51,846	17
Cash and cash equivalents, beginning of period	1,633	3,161	55
Cash and cash equivalents, end of period	$ 3,161	$ 55,007	$ 72
Supplemental disclosure:			
Interest paid	$ 91,151	$ 128,155	$ 115
Reorganization expenses paid	$ --	$ --	$ 8
Issuance of common stock for acquisitions of companies	$ 20,083	$ 263,398	$
Liabilities assumed in acquisitions of companies	$ 134,429	$ 1,059,431	$
Issuance of common stock for debt	$ 21,137	$ 156,976	$ 11
Issuance of preferred stock for debt	$ --	$ --	$ 6
Issuance of common stock for redeemable preferred stock	$ --	$ 46,915	$
Conversion of Class B common stock into common stock .	$ 14	$ 20	$
Preferred stock dividend	$ 2,146	$ 2,329	$ 7
Accretion of redeemable preferred stock	$ --	$ 4,223	$

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 messaging services, which enable subscribers to receive messages on their messaging devices composed entirely of numbers, such as a phone number, or on some messaging devices, numbers and letters, which enable subscribers to receive text messages. Arch also markets and sells advanced wireless messaging services that enable subscribers to send and receive 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, voice mail, personalized greeting, message storage and retrieval, equipment loss protection and equipment maintenance to both traditional and advanced messaging customers. These services are commonly referred to as wireless messaging and information services.

Risks and Other Important Factors--Arch sustained net losses of $285.6 million, $309.8 million and $1.6 billion for the years ended December 31, 1999, 2000 and 2001, respectively. Arch's loss from operations for the year ended

December 31, 2001 was $1.5 billion which includes an impairment charge of $976.2 million on certain long-lived assets (see Note 4) and reorganization costs of $154.9 million associated with Arch's filings for protection under chapter 11 of the U.S. Bankruptcy Code (see Note 2). In addition, at December 31, 2001, Arch had an accumulated deficit of approximately $2.8 billion. The impairment charge will result in lower depreciation and amortization expenses in future periods. Arch cannot predict whether or when its operations will become profitable.

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.

Bankruptcy-Related Financial Reporting--These financial statements have been prepared in accordance with the American Institute of Certified Public Accountants Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" ("SOP 90-7"). Substantially all of the Company's pre-petition debt is now in default. The accompanying Consolidated Financial Statements present Arch's pre-petition debt under the caption "Liabilities Subject to Compromise." This includes debt under the pre-petition credit facility and senior notes, preferred stock and other liabilities. As required by SOP 90-7, the Company has recorded the pre-petition debt instruments at the allowed amount, as defined by SOP 90-7. Accordingly, the Company accelerated the accretion of its debt discounts and recorded an expense of approximately $133.8 million during December 2001, which is included in other operating expenses in the Consolidated Statement of Operations. Other operating expenses also includes the write off of $11.8 million of deferred financing costs and $9.3 million of professional fees and other expenses directly related to the bankruptcy filing.

Arch has prepared the consolidated financial statements on a going-concern basis of accounting. This basis of accounting contemplates continuity of operations, realization of assets and liquidation of liabilities (with the exception of pre-petition liabilities as described above) in the normal course of business. Arch believes this is the appropriate basis of accounting as management anticipates successful completion of the chapter 11 reorganization. Upon successful completion and subsequent emergence from chapter 11, Arch will restate its assets and liabilities, in accordance with SOP 90-7, on the fresh-start basis of accounting which requires recording the assets on a fair value basis similar to those required by SFAS No. 141 "Business Combinations." If operating, market or other conditions were to change significantly and the proposed reorganization was not successful, it is possible that Arch's financial statements would be required to be presented on a liquidation basis of accounting. This basis of accounting would result in the carrying value of assets being restated to estimated forced liquidation proceeds, which could be significantly different than the current carrying value of the long-lived assets.

Use of Estimates--The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. On an on-going basis, Arch evaluates its estimates and assumptions, including but not limited to those related to the impairment of long-lived assets, reserves for doubtful accounts, revenue recognition and certain accrued liabilities. Arch bases its

estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Impairment of 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 the carrying value of its long-lived assets and certain intangible assets based on estimated undiscounted cash flows to be generated from such assets. In assessing the recoverability of these assets, Arch must project estimated enterprise-level cash flows which are based on various operating assumptions such as average revenue per unit in service, disconnect rates, sales productivity rates and workforce productivity ratios. Management develops these cash flow projections on a periodic basis and continuously reviews the projections based on actual operating trends. The aggregate undiscounted cash flows are compared to the assets' current book value. 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. Arch recorded an impairment charge of $976.2 million in the second quarter of 2001 (see Note 4).

Revenue Recognition--Arch's revenue consists primarily of service, lease and maintenance revenues charged to customers on a monthly, quarterly, semi-annual or annual basis. Revenue also includes sales of messaging devices directly to customers, resellers and third-party retail stores. Arch recognizes revenue over the period the service is performed. On December 3, 1999, the Securities and Exchange Commission released Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services rendered, (3) the fee is fixed and determinable, and (4) collectibility is reasonably assured. Arch believes, relative to sales of one-way messaging equipment, that all of these conditions are met and since the services are deemed not to be essential to the sale of the equipment, product revenue is recognized at the time of shipment.

Arch bundles the sale of two-way messaging equipment with the related service and since, currently the sale of the service is essential to the functionality of the device, Arch does not separately account for the sale of the device and the service. Revenue and the related cost of sales are recognized over the expected customer relationship, which is estimated to be two years. If the assumed length of the customer relationship differed significantly or technology advances resulted in the service being deemed not to be essential to the sale of the device; the timing of revenue and expense amortization and the carrying value of the related deferred revenue and cost could be materially affected.

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 Years
Vehicles	3 Years

Depreciation and amortization expense related to property and equipment totaled $144.9 million, $211.8 million and $696.8 million (including $447.4 million of the impairment charge -- see Note 4) for the years ended December 31, 1999, 2000 and 2001, 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.

On July 1, 2001, Arch revised the estimated depreciable life of certain of its messaging and computer equipment from eight to five years. This change in useful life resulted from Arch's expectations regarding future usage periods for this equipment considering current and future technological advances. As a result of this change, depreciation expense increased approximately $12.4 million in the second half of 2001.

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, restricted cash and debt financing. The fair value of cash and restricted cash is equal to the carrying value at December 31, 2000 and 2001. The fair value of the debt is included in Note 5.

Derivative Instruments and Hedging Activities-- In June 1998, the Financial Accounting Standards Board issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 requires that every derivative instrument be recorded on 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. Arch has not designated any of the outstanding derivatives as a hedge under SFAS No. 133. The initial application of SFAS No. 133 resulted in a $6.8 million charge, which was reported as the cumulative effect of a change in accounting principle. This charge represents the impact of initially recording the derivatives at fair value as of January 1, 2001. The changes in fair value of the derivative instruments during 2001 of approximately $15.0 million have been recognized in other expense. All of Arch's derivative instruments were terminated during 2001.

Basic/Diluted Net Income (Loss) Per Common Share--Basic net income (loss) per common share is based on the weighted average number of common shares outstanding. Shares of stock issuable pursuant to stock options and warrants and upon conversion of the subordinated debentures or the Series C Preferred Stock have not been considered, as their effect would be anti-dilutive and thus diluted net income (loss) per common share is the same as basic net income (loss) per common share. The following dilutive effect of potential common shares was excluded from the calculation of dilutive weighted average shares outstanding (in thousands):

Years Ended December 31,

	1999	2000	2001
Options and warrants..............	18,491	24,601	6,166
Series C preferred stock..........	1,720	1,862	2,005
Convertible debt..................	89	19	19

New Accounting Pronouncements--In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method.

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." Arch adopted the requirements of SFAS No. 142 effective January 1, 2002. SFAS No. 142 requires companies to test all goodwill for impairment and to cease amortization of this asset. Arch did not have any goodwill on its balance sheet as of January 1, 2002 and therefore the adoption of SFAS No. 142 will have no impact on Arch's results of operations or financial condition.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets." Adoption of this standard is required no later than the first quarter of 2002. Arch is evaluating the impact of adoption of this standard and has not yet determined the effect of adoption on its financial statements.

2. Petition for Relief Under Chapter 11

Certain holders of 12 3/4% Senior Notes due 2007 of Arch Wireless Communications, Inc. ("AWCI"), a wholly-owned subsidiary of Arch, filed an involuntary petition against AWCI on November 9, 2001 under chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the District of Massachusetts, Western Division. On December 6, 2001, AWCI consented to the involuntary petition and the bankruptcy court entered an order for relief with respect to AWCI under chapter 11 of the Bankruptcy Code. Also on December 6, 2001, Arch and 19 of Arch's other wholly-owned, domestic subsidiaries, including Arch Wireless Holdings, Inc. ("AWHI"), filed voluntary petitions for relief, under chapter 11, with the bankruptcy court. These cases are being jointly administered under the docket for Arch Wireless, Inc., et al., Case No. 01-47330-HJB. Arch and its domestic subsidiaries (collectively, the "Debtors") are operating their businesses and managing their property as debtors-in-possession under the Bankruptcy Code.

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. Under chapter 11, a debtor is authorized to continue to operate its business and to reorganize its business for the benefit of its creditors and stockholders. In addition to permitting the rehabilitation of the Debtor, another goal of chapter 11 is to promote equality of treatment of creditors and equity security holders of equal rank with respect to the restructuring of debt. In furtherance of these two goals, upon the filing of a petition for reorganization under chapter 11, the Bankruptcy Code generally provides for an automatic stay of substantially all acts and proceedings against a debtor and its property, including all attempts to collect claims or enforce liens that arose prior to the commencement of the debtor's case under chapter 11. In addition, the debtors may reject or assume pre-petition executory contracts and unexpired leases, and other parties to contracts or leases that are rejected may assert rejection damage claims as permitted by the Bankruptcy Code.

An official committee of unsecured creditors and a special subcommittee have been appointed in the chapter 11 cases and, in accordance with provisions of the

Bankruptcy Code. The official committee will have the right to be heard on all matters that come before the bankruptcy court and the subcommittee will have the right to be heard with respect to matters in which its interests diverge from those of the official committee. In addition to the official committee and subcommittee, a steering committee of Arch's secured bank lenders are represented in the chapter 11 cases as is an informal committee of secured note holders representing the interests of the USAM noteholders.

Confirmation and consummation of a plan of reorganization are the principal objectives of a chapter 11 reorganization case. A plan of reorganization sets forth the means for satisfying claims against, and interests in, a debtor. Confirmation of a plan requires, among other things, the affirmative vote of creditors holding at least two-thirds in total dollar amount and more than one-half in number of the allowed claims in each impaired class of claims that vote on the plan, and two-thirds in amount of equity interests in each impaired class of interests that vote on the plan. Section 1129(b) of the Bankruptcy Code, commonly referred to as the "cramdown" provision, permits confirmation of a plan of reorganization over the objection of one or more impaired classes under certain circumstances. Confirmation of a plan of reorganization by a bankruptcy court makes the plan binding upon the debtor, any issuer of securities under the plan, any person acquiring property under the plan and any

creditor or equity security holder of the debtor. Subject to certain limited exceptions, the confirmation order discharges the debtor from any debt that arose prior to the effective date of the plan and substitutes the obligations specified under the confirmed plan.

The Debtors filed a plan of reorganization with the Bankruptcy Court on January 15, 2002. The plan provides for separate classes of claims and interests for creditors and equity holders of each of the Debtors. The plan proposes that the holders of AWCI's 9 1/2% Senior Notes due 2004 and AWCI's 14% Senior Notes due 2004 and the lenders under AWHI's credit agreement (collectively, the "Secured Creditors") will receive in the aggregate (1) $200 million of new 10% Senior Secured Notes due 2007 to be issued by AWHI; (2) $100 million of new 12% Senior Subordinated Secured Notes due 2009 to be issued by AWHI; (3) 15,133,098 shares of new common stock to be issued by Arch; and (4) 100% of the cash available for distribution as detailed below. The unsecured creditors of AWHI, including the deficiency claims of secured creditors, and its subsidiaries will receive in the aggregate 3,600,000 shares of new common stock to be issued by Arch. Unsecured creditors of Arch and its subsidiaries other than AWCI and AWHI and its subsidiaries will receive no distribution. The unsecured creditors of AWCI, including the deficiency claims of the secured creditors, will receive a pro rata share of 66,902 shares of new common stock to be issued by Arch. Holders of common and preferred equity interests will receive no distributions under the plan and all equity interests in Arch will be cancelled. The new common stock to be issued to the secured and unsecured creditors will constitute 100% of the outstanding common stock on the effective date of the plan of reorganization. Additionally, on the effective date of the plan of reorganization, Arch will adopt a management stock plan that will make six percent of the new common stock to be issued pursuant to the plan on a fully diluted basis available for award to certain members of Arch's continuing management. The cash available for distribution to the Secured Creditors is an amount of cash equal to the amount by which the Debtors' cash plus the amount of availability under a revolving line of credit, if any, exceeds $45 million less administrative expense claims reasonably expected to be payable for services provided and fees earned through the closing of the transactions contemplated by the plan of reorganization.

The accompanying Consolidated Financial Statements have been prepared in accordance with SOP 90-7 and on a going concern basis, which contemplates continuity of operations, realization of assets and liquidation of liabilities in the ordinary course of business. Substantially all of the Company's pre-petition debt is now in default. As described below, the accompanying Consolidated Financial Statements present the Debtor's pre-petition debt under the caption "Liabilities Subject to Compromise." This includes debt under the pre-petition credit facility and senior notes. As required by SOP 90-7, the Company has recorded the Debtor's pre-petition debt instruments at the allowed amount, as defined by SOP 90-7. Accordingly, the Company accelerated the accretion of its debt discounts and recorded an expense of approximately $133.8 million during December 2001, which is included in other operating expenses in the Consolidated Statement of Operations. Other operating expenses also includes the write off of $11.8 million of deferred financing costs and $9.3 million of professional fees and other expenses directly related to the bankruptcy filing.

As reflected in the Consolidated Financial Statements, "Liabilities subject to compromise" refer to Debtors' liabilities incurred prior to the commencement of the chapter 11 cases. The amounts of the various liabilities that are subject to compromise are set forth below following the Debtor-In-Possession financial statements. These amounts represent Arch's estimate of known or potential pre-petition claims to be resolved in connection with the chapter 11 cases. Such claims remain subject to future adjustments. Adjustments may result from (1) negotiations; (2) actions of the bankruptcy court; (3) rejection of executory contracts and unexpired leases; (4) proofs of claims; or (5) other events. Payment terms for these amounts will be established in connection with the chapter 11 cases. Further, a plan of reorganization could materially change the amounts and classifications reported in the consolidated historical financial statements.

The Debtors have received approval from the Bankruptcy Court to pay or otherwise honor certain of their pre-petition obligations, including employee wages, salaries, benefits and other employee obligations, pre-petition claims of critical vendors, and certain other pre-petition claims. These amounts are included in the liabilities not subject to compromise section of the Consolidated Balance Sheet at December 31, 2001 to the extent they had not been paid.

Contractual interest expense not accrued or recorded on pre-petition debt totaled $13.0 million for 2001.

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At December 31, 2001, The Company had $72 million of cash. In addition, in connection with the chapter 11 filing, the Debtors obtained a $50 million debtor-in-possession credit facility from a group of lenders led by Toronto Dominion (Texas), Inc. (the "DIP financing"). The company believes, based on information presently available to it, that cash available from operations and the DIP financing will provide sufficient liquidity to allow it to continue as a going concern for the foreseeable future. However, the ability of the Company to continue as a going concern (including its ability to meet post-petition obligations of the Debtors and to meet obligations of the non-debtor subsidiaries) and the appropriateness of using the going concern basis for its financial statements are dependant upon, among other things, (1) the Company's ability to comply with the terms of the DIP financing and any cash collateral order entered by the bankruptcy court in connection with the chapter 11 cases, (2) the ability of the Company to maintain adequate cash on hand, (3) the ability of the Company to generate cash from operations and (4) confirmation of a plan of reorganization under the Bankruptcy Code.

The condensed financial statements of the Debtors are presented as follows:

ARCH WIRELESS, INC.
DEBTOR-IN-POSSESSION BALANCE SHEET
December 31, 2001
(in thousands)

ASSETS	
Current assets:	
Cash and cash equivalents	$ 70,131
Accounts receivable, net	88,557
Inventories	820
Restricted cash	34,579
Prepaid expenses and other	47,179
Total current assets	241,266
Property and equipment, at cost	1,421,318
Less accumulated depreciation and amortization	1,028,653
Property and equipment, net	392,665
Intangible and other assets, net	7,054
	$ 640,985
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	
Liabilities not subject to compromise:	
Current liabilities:	
Accounts payable	$ 8,718
Accrued expenses and other liabilities	118,487
Total current liabilities	127,205
Other long-term liabilities	15,298
Liabilities subject to compromise	2,096,280
Stockholders' equity (deficit):	
Common stock--$.01 par value	1,824
Additional paid-in capital	1,107,233
Accumulated deficit	(2,706,855)
Total stockholders' equity (deficit)	(1,597,798)
	$ 640,985

ARCH WIRELESS, INC.
DEBTOR-IN-POSSESSION STATEMENT OF OPERATIONS
For the Year Ended December 31, 2001
(in thousands)

Revenues	$ 1,143,879

Operating expenses:	
Cost of products sold (exclusive of items shown separately below)	40,932
Service, rental and maintenance (exclusive of items shown separately below)	301,306
Selling	135,476
General and administrative (exclusive of items shown separately below)	381,212
Depreciation and amortization	1,537,789
Reorganization expense	154,927
Other operating expenses	7.890
Total operating expenses	2,559,532
Operating income (loss)	(1,415,653)
Interest expense, net	(215,574)
Other expense	(29,668)
Income (loss) before income tax benefit, extraordinary items and accounting change	(1,660,895)
Benefit from income taxes	121,994
Income (loss) before extraordinary items and accounting change	(1,538,901)
Extraordinary gain (loss) from early extinguishment of debt	34,229
Cumulative effect of accounting change	(6,794)
Net income (loss)	$(1,511,466)

ARCH WIRELESS, INC.
DEBTOR-IN-POSSESSION STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2001
(in thousands)

Net cash provided by operating activities	$ 47,418
Cash flows from investing activities:	
Additions to property and equipment, net	(102,243)
Additions to intangible and other assets	(3,101)
Sale of FCC licenses	177,150
Acquisition of companies, net of cash acquired	104
Net cash provided by investing activities	71,910
Cash flows from financing activities:	
Repayment of long-term debt	(178,111)
Net proceeds from sale of preferred stock	75,000
Net cash used in financing activities	(103,111)
Net (decrease) increase in cash and cash equivalents	16,217
Cash and cash equivalents, beginning of period	53,914
Cash and cash equivalents, end of period	$ 70,131

Supplemental disclosure:	
Interest paid	$ 111,238
Reorganization expenses paid	$ 8,336
Issuance of common stock for debt	$ 11,643
Issuance of preferred stock for debt	$ 6,936
Preferred stock dividend	$ 7,260

The amounts subject to compromise in the Consolidated and Debtor-in-Possession Balance Sheets consist of the following items at December 31, 2001(in thousands):

Accounts payable	$ 21,790
Accrued restructuring	17,496
Accrued expenses	45,664
Accrued interest	109,523
Debt	1,735,689
Other long-term liabilities	46,418
Series C and series F redeemable preferred stock	119,700
Total liabilities subject to compromise	$2,096,280

3. 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 5) and additional borrowings under the Company's credit facility.

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 (see Note 10). 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 11).

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 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. The purchase price for these acquisitions was allocated based on the fair values of assets acquired and liabilities assumed.

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 11).

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, 1999	Year Ended December 31, 2000
	(unaudited and in thousands except for per share amounts)	
Revenues	$1,803,519	$1,475,828
Income (loss) before extraordinary item	(429,994)	(499,006)
Net income (loss)	(433,355)	(440,403)
Basic/diluted net income (loss) per common share.	(2.55)	(2.90)

4. Intangible and Other Assets

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

	December 31, 2000	December 31, 2001
Purchased Federal Communications Commission licenses	$ 451,431	$ 28
Purchased subscriber lists	412,015	--
Goodwill	163,027	--
Restricted cash	35,280	--
Deferred financing costs	24,905	894
Other	14,086	236

	$1,100,744	$ 1,158
	==========	==========

Amortization expense related to intangible and other assets totaled $164.6 million, $289.1 million and $887.7 million (including $528.7 million of the impairment charge) for the years ended December 31, 1999, 2000 and 2001, respectively.

In 2000, other assets consist of a note receivable from Vast Solutions, Inc., contract rights, organizational and Federal Communications Commission application and development costs which were amortized using the straight-line method over their estimated useful lives, not exceeding ten 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 held 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, were recognized in Arch's accompanying consolidated statements of operations under the caption equity in loss of affiliate.

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, Inc.

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.

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

Included in purchased Federal Communications Commissions licenses at December 31, 2000 was $175.0 million of 900 MHz SMR (Specialized Mobile Radio) licenses. In January 2001, Arch agreed to sell its SMR licenses to Nextel Communications, Inc. Nextel acquired the SMR licenses for an aggregate purchase price of $175 million and invested approximately $75 million in a new equity issue, Arch series F 12% redeemable cumulative junior preferred stock. The transaction was completed in two stages. In February 2001, Nextel advanced $250 million in the form of a secured loan in the principal amount of $175 million and an unsecured loan in the principal amount of $75 million to a newly created, stand-alone Arch subsidiary that held the SMR licenses pending FCC regulatory approval of their

transfer. The new Arch subsidiary was not permitted to engage in any business other than ownership and maintenance of the SMR licenses and did not have any liability or obligation with respect to any of the debt obligations of Arch or its subsidiaries. In May 2001, upon transfer of the SMR licenses to Nextel, the principal amount of the secured loan was offset against the $175.0 million aggregate purchase price for the SMR licenses, and the principal amount of the unsecured loan was exchanged for shares of series F preferred stock. Accrued interest on the secured and unsecured loans was also paid in series F preferred stock.

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 Value at December 31, 2000	Estimated Useful Life
Purchased Federal Communications Commission licenses......	$ 276,420	24 Months
Purchased subscriber lists...............................	137,426	12 Months
Goodwill...	163,027	12 Months

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

Impairment of Property and Equipment and Intangible Assets--In July 2001, Arch developed preliminary projections in order to assess the carrying value of its long-lived assets. These projections were management's best estimate, at the time, of future results based on lower than expected operating results for the quarter ended June 30, 2001 and potential yearend liquidity constraints that could arise. The aggregate undiscounted cash flows from these projections was compared to the carrying value of the long-lived assets. Since the carrying value exceeded the aggregate undiscounted cash flows, fair value of the assets was determined based on a discounted cash flow analysis. As a result, Arch recorded an impairment charge of $976.2 million in the second quarter of 2001, which is included in depreciation and amortization expense in the statement of operations, and reduced the carrying value of certain one-way messaging equipment, computer equipment and intangible assets.

5. Debt

Debt consisted of the following (in thousands):

	December 31,			
	2000		2001	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Canadian Bank Debt......................	$ 63,355	$ 63,355	$ 67,271	$ 67,271
Less--Current maturities................	--		67,271	
Long-term debt..........................	$ 63,355		$ --	

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Debt subject to compromise consisted of the following (in thousands):

	December 31,			
	2000		2001	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Senior Bank Debt........................	$ 1,135,113	$1,070,757	$ 1,119,609	$ 167,941
10 7/8% Senior Discount Notes due 2008..	160,272	40,068	113,141	--
9 1/2% Senior Notes due 2004...........	125,000	85,000	125,000	625
14% Senior Notes due 2004...............	100,000	75,000	100,000	500
12 3/4% Senior Notes due 2007..........	128,168	46,140	130,000	650
13 3/4% Senior Notes due 2008..........	141,167	50,820	147,000	735
Other..................................	3,485	2,539	939	--
Long-term debt subject to compromise....	$ 1,793,205		$ 1,735,689	

Due to the bankruptcy filing (see Note 2), pre-petition long-term debt of the Debtors has been reclassified to the caption Liabilities subject to compromise in the above table and on the Consolidated Balance Sheet. Amounts listed in 2000 "Debt subject to compromise" were reclassified for comparison purposes in the above table. These instruments did not become subject to compromise until December 6, 2001.

Arch's debt financing primarily consists of senior bank debt and fixed rate senior notes. Arch's senior bank debt trades and is quoted regularly, therefore the fair value at December 31, 2000 and 2001 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 and are not known to be quoted and /or traded. 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, 2000 and 2001.

DIP Credit Agreement--In connection with the bankruptcy filing, Arch obtained a $50 million debtor-in-possession credit facility from a group of lenders led by Toronto Dominion (Texas), Inc. which expires the earlier of December 5, 2002 or the effective date of a confirmed plan of reorganization. Arch's availability under this facility is the lesser of $50 million or a calculated borrowing base, which is derived based on eligible accounts receivable, as defined in the agreement. Availability at December 31, 2001 was approximately $30 million. The interest rate is LIBOR plus 3.25% or the bank's base rate plus 2.25%, if outstanding borrowings are less than $25 million. If outstanding borrowings are greater than $25 million, the interest rate is LIBOR plus 4% or the bank's base rate plus 3%. The applicable interest rate at December 31, 2001 was 5.13%. The facility has a commitment fee of 0.5% per annum on unused portions, payable monthly and a quarterly collateral agent fee of $25,000. There were no borrowings outstanding under the facility at December 31, 2001. This facility is secured by a first priority security interest in all of the pre-petition and post-petition assets of the Debtors and is entitled to super priority expense of administration in the bankruptcy proceeding.

The DIP 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 DIP credit facility requires Arch and its subsidiaries to meet certain financial covenants, including minimum earnings before interest, income taxes, depreciation and amortization, minimum direct units in service, minimum service revenue and maximum capital expenditures. As of December 31, 2001, Arch and its operating subsidiaries were in compliance with the covenants of the DIP credit facility.

In connection with the bankruptcy filing, if the aggregate average daily cash balance for any fiscal month exceeds $45 million, Arch is required to pay the pre-petition secured lenders such excess less amounts due under the DIP credit facility, provided, however, that after such payment the aggregate cash balance shall not be less than $45 million. Such cash payment is to be applied to the outstanding principal amount of the pre-petition secured debt. In January 2002, Arch paid $13.5 million pursuant to this provision.

Canadian Bank Debt--The Company's Canadian operations are financed through two credit agreements, one to each of the two Canadian subsidiaries, which provide for total borrowings of approximately $72.8 million. As of December 31, 2001, approximately $67.3 million of borrowings were outstanding under these credit facilities. The Canadian subsidiaries are currently in violation of certain of its financial covenants and therefore the outstanding balances have been classified as current liabilities in the consolidated balance sheet. The Canadian subsidiaries, Arch and the secured lenders are currently evaluating options to restructure the outstanding debt. 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 - $62.6 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 $34.6 million of cash collateral, which is classified as restricted cash on the balance sheet at December 31, 2001, 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.

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.

In 2001, Arch issued 18,905,989 shares of Arch common stock in exchange for $50.8 million accreted value ($51.0 million maturity value) of its senior discount notes. Arch recorded an extraordinary gain of $34.2 million on the early extinguishment of debt as a result of these transactions.

6. Redeemable Preferred Stock and Stockholders' Equity

Redeemable Series C Cumulative Convertible Preferred Stock--The Series C Preferred Stock: (1) is convertible into Arch common stock at a conversion price of $16.38 per share, subject to certain adjustments; (2) 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; (3) 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; (4) is subject to redemption for cash or conversion into Arch common stock at Arch's option in certain circumstances; (5) 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; (6) limits certain mergers or asset sales by Arch; (7) 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 (8) has certain voting and preemptive rights. The balance of $32.8 million, which includes accrued dividends through December 5, 2001, is included in liabilities subject to

compromise at December 31, 2001.

Series F Redeemable Cumulative Junior Preferred Stock - In May 2001, in connection with the Nextel transactions discussed in Note (4) above, Arch issued 793,219 shares of series F preferred stock. The series F preferred stock: (1) is convertible into Arch common stock at a conversion price equal to the then prevailing market price of the common stock per share, subject to certain adjustments; (2) bears dividends at an annual rate of 12.0%, (A) payable quarterly in cash or, at Arch's option, through the issuance of shares of Arch common stock valued at the then prevailing market price or (B) if not paid quarterly, accumulating and payable upon redemption or conversion of the series F preferred stock or liquidation of Arch; (3) must be redeemed on the tenth anniversary of the date of issuance, at Arch's option, for cash or converted into Arch common stock valued at the then prevailing market price of Arch common stock, so long as the common stock remains listed on a national securities exchange; (4) is subject to redemption for cash or conversion into Arch common stock at Arch's option in certain circumstances; (5) in the event of a "Change of Control" as defined, requires Arch, at its option, to redeem the series F preferred stock for cash or convert such shares into Arch common stock valued at the then prevailing market price of Arch common stock, with such cash redemption or conversion being at a price equal to 101% of the sum of the original purchase price plus accumulated dividends; (6) limits certain mergers or asset sales by Arch; and (7) has certain voting and preemptive rights. The balance of $86.9 million, which includes accrued dividends through December 5, 2001, is included in liabilities subject to compromise at December 31, 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 grant 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.

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

	Number of Options	Weighted Average Exercise Price
Options outstanding at December 31, 1998........	648,768	$ 15.51
Granted....................................	1,295,666	7.80
Exercised..................................	--	--
Terminated.................................	(109,672)	13.89
Options outstanding at December 31, 1999........	1,834,762	10.16
Granted....................................	6,147,950	4.07
Assumed in merger..........................	410,183	161.63
Exercised..................................	--	--

Terminated	(445,903)	17.46
Options outstanding at December 31, 2000	7,946,992	12.86
Granted	185,000	0.90
Exercised	--	--
Terminated	(1,965,931)	30.73
Options outstanding at December 31, 2001	6,166,061	$ 6.80
Options exercisable at December 31, 2001	2,014,131	$ 11.31

The following table summarizes the options outstanding and options exercisable by price range at December 31, 2001:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$ 0.37 -- $ 0.37	21,000	9.37	$ 0.37	21,000	$ 0.37
0.40 -- 0.97	1,797,000	8.96	0.95	433,250	0.97
1.31 -- 6.06	2,997,513	8.39	5.89	775,113	6.03
6.09 -- 15.19	1,266,783	6.99	9.96	701,406	11.06
17.12 -- 319.04	83,765	6.21	118.51	83,362	118.99
$ 0.37 -- $319.04	6,166,061	8.24	$ 6.80	2,014,131	$ 11.31

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 1999 and 2000, 34,217 and 459,133 shares were issued at an average price per share of $5.60 and $1.25, respectively. No shares were issued in 2001 as the plan was suspended.

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 December 31, 1999	2000	2
		(in thousands, except per share a		
Net income (loss):	As reported	$(285,586)	$(309,780)	$(1,56
	Pro forma	(288,070)	(315,234)	(1,57
Basic net income (loss) per common share:	As reported	(9.10)	(4.10)	
	Pro forma	(9.18)	(4.17)	

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 0% - 93%.

The weighted average fair values (computed consistent with SFAS No. 123) of options granted under all plans in 1999, 2000 and 2001 were $5.56, $3.01 and $0.19, respectively. The weighted average fair value of shares sold under the employee stock purchase plans in 1999 and 2000 was $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.

7. 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, 2000 and 2001 are as follows (in thousands):

	2000	2001
Deferred tax assets	$ 275,211	$ 897,566
Deferred tax liabilities	(132,884)	(11,538)
	142,327	886,028
Valuation allowance	(264,321)	(886,028)

	$ (121,994)	$ --

The approximate effect of each type of temporary difference and carryforward at December 31, 2000 and 2001 is summarized as follows (in thousands):

	2000	2001
Net operating losses	$ 231,795	$ 397,581
Intangibles and other assets	(45,902)	366,259
Depreciation of property and equipment	(53,405)	85,370
Accruals and reserves	9,839	36,818
	142,327	886,028
Valuation allowance	(264,321)	(886,028)
	$ (121,994)	$ --

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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 2016. 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 operating losses in any one year are significantly limited for income tax purposes. In accordance with provisions of the Internal Revenue Code, upon emergence from chapter 11, Arch will apply its cancellation of debt income against its various tax attributes.

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.

8. 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, 2001 are as follows (in thousands):

Year Ending December 31,	
2002	$ 104,758
2003	55,779
2004	43,570
2005	32,740
2006	22,952
Thereafter	92,700

Total...	$ 352,499

Total rent expense under operating leases for the years ended December 31, 1999, 2000 and 2001 approximated $48.3 million, $81.2 million and $150.7 million, respectively.

9. 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, 1999, 2000 and 2001 approximated $960,000, $1.2 million and $1.6 million, respectively.

10. Other 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 and 2001, approximately $20.2 million and $15.3 million of the gain is deferred and approximately $1.9 million, $2.0 million and $3.1 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, 1999, 2000 and 2001, respectively.

Also included in other long-term liabilities at December 31, 2000 is a $49.1 million unfavorable lease accrual related to MobileMedia's rentals on communications towers which were in excess of market rental rates. At December 31, 2001, the remaining balance of this accrual was approximately $46.4 million and is included in liabilities subject to compromise. This accrual is being amortized over the term of the leases with approximately 11 3/4 years remaining at December 31, 2001.

11. 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.

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 (1) $6.1 million for employee severance, (2) $7.9 million for lease obligations and terminations and (3) $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 consisted 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 related primarily to future lease commitments on local, regional and divisional office facilities to be closed as part of this reorganization. The charge represented future lease obligations on such leases past the dates the offices were to be closed, or for certain leases, the cost of terminating the leases prior to their scheduled expiration.

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 eliminated approximately 1,100 net positions formerly held by Arch and MobileMedia personnel. The majority of the positions which have been eliminated are related to management, administrative, customer service, collections, inventory and billing functions. As of December 31, 1999, 2000 and 2001, 588, 951 and 1,368 employees, respectively, had been terminated due to the divisional reorganization and the MobileMedia and PageNet integrations.

The Company's restructuring activity as of December 31, 2001 is as follows (in thousands):

	Balance at December 31, 2000	Reserve Adjustment in 2001	Amounts Paid	Remaining Reserve
Severance costs.........	$ 2,957	$ 1,960	$ 4,917	$ --
Lease obligation costs..	10,776	--	5,071	5,705
Other costs............	162	--	135	27

Total..................	$ 13,895	$ 1,960	$ 10,123	$ 5,732

The remaining reserve balance at December 31, 2001 has been included in Liabilities subject to compromise on the Consolidated Balance Sheet and in accordance with SOP 90-7 has not been adjusted to reflect the potential reductions due to rejecting the underlying leases pursuant to the Company's chapter 11 bankruptcy proceedings.

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. The integration activity relating to the PageNet merger, was substantially completed at December 31, 2001.

In connection with the PageNet acquisition, Arch anticipated 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 was included as part of the PageNet purchase price allocation. The initial acquisition reserve consisted of approximately (1) $66.1 million for employee severance, (2) $9.4 million for lease obligations and terminations and (3) $0.5 million of other costs.

The provision for lease obligations and terminations related primarily to future lease commitments on local, regional and divisional office facilities to be closed as part of this integration. The charge represented future lease obligations on such leases past the dates the offices were to be closed, or for certain leases, the cost of terminating the leases prior to their scheduled expiration.

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, 2001, 1,803 former PageNet employees had been terminated.

The PageNet acquisition reserve activity as of December 31, 2001 was as follows (in thousands):

	Balance at December 31, 2000	Reserve Adjustment in 2001	Amounts Paid	Remaining Reserve
Severance costs.........	$ 36,765	$ 10,900	$ 46,071	$ 1,594
Lease obligation costs..	9,264	11,062	10,306	10,020
Other costs............	500	--	350	150
Total..................	$ 46,529	$ 21,962	$ 56,727	$ 11,764

The remaining reserve balance at December 31, 2001 has been included in Liabilities subject to compromise on the Consolidated Balance Sheet and in accordance with SOP 90-7 has not been adjusted to reflect the potential reductions due to rejecting the underlying leases pursuant to the Company's chapter 11 bankruptcy proceedings.

12. Segment Reporting

Arch 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 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.

Arch 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 Arch's segments as of and for the years ended December 31, 2000 and 2001 (in thousands):

Year Ended December 31, 2000:	Traditional Paging Operations	Two-way Messaging Operations	International Operations
Revenues..............................	$ 838,425	$ 9,383	$ 3,274
Depreciation and amortization expense..	488,048	9,459	3,324
Operating income (loss)...............	(216,591)	(25,709)	(2,837)
Adjusted EBITDA(1)....................	276,882	(16,250)	487
Total assets..........................	1,981,156	265,137	63,316
Capital expenditures..................	111,047	28,115	1,123

Year Ended December 31, 2001:	Traditional Paging Operations	Two-way Messaging Operations	International Operations
Revenues..............................	$ 1,042,767	$ 101,446	$ 19,301
Depreciation and amortization expense..	1,467,864	69,925	46,693
Operating income (loss)...............	(1,338,525)	(76,864)	(44,273)
Adjusted EBITDA(1)....................	292,156	(6,939)	2,420
Total assets..........................	375,558	221,741	54,334
Capital expenditures..................	50,823	54,806	3,856

(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.

13. Quarterly Financial Results (Unaudited)

Quarterly financial information for the years ended December 31, 2000 and 2001 is summarized below (in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter
Year Ended December 31, 2000:			
Revenues	$ 189,995	$ 187,852	$ 184,192
Operating income (loss)	(27,686)	(27,945)	(26,998)
Income (loss) before extraordinary item	(70,192)	(64,148)	(63,902)
Extraordinary gain (1)	7,615	44,436	--
Net income (loss)	(62,577)	(19,712)	(63,902)
Basic/diluted net income (loss) per common share:			
Income (loss) before extraordinary item	(1.28)	(1.01)	(1.00)
Extraordinary gain	0.14	0.68	--
Net income (loss)	(1.14)	(0.33)	(1.00)

	First Quarter	Second Quarter(3)	Third Quarter
Year Ended December 31, 2001:			
Revenues	$ 327,429	$ 303,399	$ 281,298
Operating income (loss)	(157,546)	(1,142,604)	(13,027)
Income (loss) before extraordinary item	(194,183)	(1,121,081)	(92,732)
Extraordinary gain (1)	14,956	19,273	--
Net income (loss)	(186,021)	(1,101,808)	(92,732)
Basic/diluted net income (loss) per common share:			
Income (loss) before extraordinary item	(1.17)	(6.19)	(0.52)
Extraordinary gain	0.09	0.11	--
Net income (loss)	(1.12)	(6.08)	(0.52)

(1) Extraordinary gains in all periods are the result of early extinguishment of debt (see Note 5).

(2) On November 10, 2000 Arch completed its acquisition of PageNet (see Note 3). 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 4). 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).

(3) Arch recorded an impairment charge of $976.2 million in the second quarter of 2001, which is included in depreciation and amortization expense in the statement of operations, and reduced the carrying value of certain one-way paging equipment, computer equipment and intangible assets (see Note 4).

(4) Arch recorded an reorganization costs of $153.7 million in the fourth quarter of 2001, associated with its chapter 11 bankruptcy filing (see Note 2).

14. Restatement of Financial Statements

As more fully discussed in Note 6, the redeemable preferred series C convertible preferred stock is convertible, at Arch's option, into common stock. In order to retain this feature, Arch common stock must be listed on the Nasdaq National Market. On April 30, 2001, Arch was informed that its common stock was delisted from the Nasdaq National Market. As a result, Arch determined that the series C convertible preferred stock was more properly classified as temporary equity rather than permanent equity.

The restatement of the financial statements with regard to the reclassification of the series C convertible preferred stock from permanent to temporary equity is reflected on the accompanying balance sheet as of December 31, 2000, as restated.

15. Subsequent Event

As more fully discussed in Note 2, Arch and substantially all of its domestic subsidiaries filed for relief under chapter 11 of the Bankruptcy Code on December 6, 2001. On May 29, 2002, Arch's plan of reorganization, which was confirmed by the Bankruptcy Court on May 15, 2002, became effective and Arch and its domestic subsidiaries are now operating their businesses and properties as reorganized entities pursuant to the plan.

EXHIBIT INDEX

99.1* Letter to Commission pursuant to Temporary Note 3T

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* Filed herewith.