
MANAGEMENT DISCUSSION SECTION

Operator: Welcome and thank you for standing by. At this time, all participants are in a listen only mode. [Operator Instructions]. Now I will turn the meeting over to Mr. John Lowber, Chief Financial Officer. Sir, you may begin.

John Lowber, CFO, SVP, Treasurer and Secretary

Okay, thank you. Thank you all for taking the time to participate in our call today. I am John Lowber, the company's Chief Financial Officer; we have got Ron Duncan here our President and CEO, we got Dana Tindall who runs our Legal and Regulatory operations, Bruce Broquet our VP Finance; and Fred Walker, who is our Chief Accounting Officer, and [indiscernible] our Corporate Counsel who is here today.

We will all be available to who participate in the question and answer session, which will follow my initial comments. If you don't have a copy of our detailed press release, you can find it on our website. The call is being recorded, and will be available for playback for 72 hours beginning at 4 P.M. Eastern Time today. The playback number is 866-435-1327 with an access code of 7461. In addition to the conference call, you may access the conference through the Internet. To access the call via net conferencing, log on to our website at www.gci.com and follow the instructions. The webcast will be available for replay for the next 2 weeks.

I will now read a cautionary statement about forward-looking comments and then we'll get started. Some of the statements made by GCI in this presentation are forward looking in nature. Actual results may differ from those projected in forward-looking statements due to a number of factors. Additional information concerning such factors can be found in GCI's filings with the Securities and Exchange Commission.

2004 was a great year we accomplished a lot in terms of continued strategic positioning in the markets as well as in financial terms. On the financial side we established new records for revenues, operating cash flow and earnings. Our revenues were up 8.7%, which is almost 425 million. Our EBITDA excluding our bond refinancing cost totaled almost a 139 million an increase of 9.5% over the prior year and our net income increased almost 37% to 21.25 million or \$0.34 per share.

We refinanced our senior notes during the year locking in favorable rates for a long term period and made fairly significant progress on our stock repurchase program by purchasing and retiring most of the MCI equity position. From notable non-financial accomplishments during the year included completion of our new under sea fiber, the roll out of our digital local telephone service, the addition of 2 more markets to our directory business, the addition of almost 50 additional communities to our wireless Internet access network, and the launch of our Ultimate package the product bundle among others.

Fourth quarter revenues were up 1.6% over the prior years, but they were down as expected on a sequential basis. Cash flow was down on both the current year, versus prior year and the sequential basis for a number of reasons. Items we discussed a year ago, that affect comparability to this year's fourth quarter included the use of 2.17 million of MCI credit against this quarter's 823,000, a 1.6 million of special project revenue that did not recur this quarter and an accrual of 1.5 million in USF revenues related to the conversion to the accrualment [ph] of accounting for USF revenues. This quarter we were saddled with approximately 1.6 million and mostly non-recurring overhead costs, that comply with the requirements of Section 404 of the Sarbanes-Oxley Act.

Our effective tax rate for the quarter was considerably higher than prior quarters, due to a show [ph] of our deferred taxes following completion of this years tax provision. Other items that affected the quarterly results will be discussed later on in my presentation.

Long distance, long distance revenues were up 6.1% for the full year over the prior full year. Fourth quarter revenues were down 1.5% as compared to the fourth quarter of 2003 and they were down 4.3 % sequentially. Total billable minutes carried in 2004 increased 3.3% as compared to 2003. Fourth quarter billable points were down 4.4% as compared to the fourth quarter of 2003, and were down approximately 6.4% compared to the 311 million minutes we carried in the seasonally strong third quarter.

The number of customers making calls in December increased to the highest number we've seen in some time. We had 91,300 active long distance customer at yearend as compared to 85,600 a year ago, and 90,300 at the end of the third quarter. Our average rate per minute totaled 9.66¢ during the fourth quarter as compared to \$0.1021 [ph] a year ago, and \$0.0986 in the third quarter. Our average rate per minute is down 5.4% compared to last year and is down another 2% when compared to the third quarter. The rate decreases have historically been accompanied by decreases in our distribution cost, which consists mostly of access charges.

Our long distance margins of 69.6% for the quarter were comparable to the prior year quarter, but were down 435 basis points sequentially. Part of the decrease was due to approximately \$900 of credits we received and discussed last quarter that did not recur this quarter. Weakness in the switched minutes business is been partially mitigated by strong increases in terrestrial and undersea fiber, satellite broadband, private line, and data revenues. These revenues increased almost 15.5% year-over-year to \$27.5 million during the fourth quarter and were up 2.2% on a sequential basis. These revenues represented more than 45% of long distance revenues during the quarter, an all time high.

Long distance EBITDA totaled \$17.3 million for the quarter as compared to \$23.2 million for the same quarter of the prior year, representing a decrease of almost 26%. \$4.5 million of the decrease is attributable to the items effecting comparability that I mentioned earlier. Most of the remainder can be attributed to operating costs increases in the IT area. On a sequential basis long distance EBITDA decreased approximately 29%. The sequential decrease is due to the decrease in minutes carried, accompanied by rate decreases reducing revenues and margins and increases in operating cost relating primarily to Sarbanes-Oxley compliance and the increases in cost of personnel and contract labor.

Cable television. Our cable and entertainment operations finished the year with strong financial results. Although we experienced only slight increases in year-over-year and sequential subscriber numbers, full year 2004 revenues were up almost 5.6% over the full year of 2003. Fourth quarter revenues were up almost 5% as compared to the fourth quarter of last year and were up 4% on a sequentially basis. Rates on an equivalent subscriber basis were up 6.5% to \$81.33 compared to \$76.34 a year ago, and were up 2.5% on a sequential basis. We ended the year with approximately a 134,700 subscribers, as compared to 134,400 that we had a year ago, and 134,300 we had at the end of last quarter.

I mentioned a year ago that in spite of the increased competition, we expect to continue to grow the cash flows generated by our cable and entertainment operations, and we have been able to accomplish that during 2004. EBITDA from our cable operations totaled approximately \$45.5 million for 2004 versus \$42.3 million for 2003 representing an increase of 7.3%. We generated \$12.3 million of EBITDA for the quarter, which represents an increase of approximately 11.8% over the same quarter of the prior year and an increase of 16% over the prior quarter.

Gross profit margins increased 49 basis points over the full year and increased a 198 basis points sequentially. The cable business is having a success up selling additional digital features. At

yearend we had approximately 46,100 digital special interest subscribers compared to the 34,900 that we had a year ago. We are now offering digital programming in a large percentage of our markets with some form of digital service available for 94% of our homes passed at yearend. We've completed our initiative to convert anchorage and now Fairbanks to an all-digital status allowing us to mine back capacity on the network by substituting digital program for what had been carried in the less efficient analog format. Digital conversion provides us with sufficient capacity to accommodate the provision of digital local phone service using the cable infrastructure. The cable business receives a benefit of 55% of the cable modem revenues generated by our Internet access operations. At yearend we had over 4,900 combination high definition DVR [ph] boxes deployed in the anchorage and [indiscernible] markets, representing an increase of 1,800 units over the prior quarter. We are currently offering 10 HB channels in those markets. Advertising sales were particularly strong during the fourth quarter of this year as well.

Local service. Our local services business turned up another 1700 access lines during the quarter and at year-end we were serving approximately 12,100 lines that we estimate represents a statewide market share of approximately 24%. We added approximately 6,000 lines during the full year in spite of reduction of 2,500 Internet acces lines. The local services revenues increased approximately 5.1% over the fourth quarter of last year and were up 7.8% sequentially. The local service revenues totaled almost 47 million for all of 2004, which represents an increase of 20.5% over 2003 revenues of 39 million. EBITDA from local services turn into a negative 375,000 during the fourth quarter as compared to a positive 655,000 in the same quarter of 2003 and an negative 754,000 in the prior quarter. The local services results were affected by increases in cost in the anchorage market that became affected in late June of this year. Long distance access cost saving is not reflected in local services results of approximately 7.1 million in 2004 and 6.9 million in 2003.

As I mentioned earlier the local services results were enhanced in the prior year quarter by a change in our accounting for universal service revenues we received in our local services markets. There has been a little change in the, or I should say a little change in the component of our access lines. Residential lines currently represent about 60%, business about 36% and Internet access customers have dropped to about 4%. This demand for dial-up Internet access shrinks, demands for local lines by Internet access providers including ourselves also shrinks. Approximately 85% of our lines are provided on our own facilities or using leased local loops. Approximately 6% are provided using UNE-P.

One of our major initiatives for 2004 and beyond involve deploying digital local phone service using our cable plant in stead of leased local loops or other means involving the incumbent local service provider. As you may recall we began to deploy digital local phone service in the anchorage market during the second quarter of 2004. As of year-end we had turned up approximately 8000 lines using our new technology, meaning we no longer have to lease local loops or resell service from the ILEC in order to provide that service. This allows us to avoid loop rental and wholesale cost and provide much improved service to our customers.

During the fourth quarter we distributed our second edition of the GCI anchorage directly in the Yellow Pages to residential and business customers in anchorage. We launched our inaugural editions in the Fairbanks and Juneau markets in the prior quarter. The directories results are included in the Local Service segment.

There has been little activity on the legal and regulatory front. We recently appeal the anchorage arbitration order from the RCA that serve to increase the anchorage loop rates among other things. Our appeal is filed with the Federal District Court. We are taking issue with a number of findings in the RCA order so that we don't believe are consistent with the requirements of the Telecom Act. It's too early to speculate when this matter will ultimately be resolved.

We recently filed an application with the RCA to amend our local certificates to allow us to provide local telephone service in 11 additional areas of Alaska. We currently have cable television

facilities in all of those areas and expect to eventually use such facilities to provide local telephone service in those locations. The RCA recently ruled that the ILEC serves the Matanuska Valley and Innoko River is waived its rule of exemption with respect to GCI only as a result of its offering of video programming service and competition stuff in its market. The ILEC now compelled to negotiate an interconnection agreement with us that will facilitate our division of local services on a competitive basis in that rapidly growing market.

Internet access services. Internet access revenues were up dramatically during the year recording a 31% increase to almost \$26 million. Revenues for the fourth quarter totaled \$6.4 million as compared to \$5.5 million in the same quarter of the prior year representing an increase of 16.4%. Revenues were down 4.5% on a sequential basis. Internet business EBITDA totaled a record 3.1 million for the fourth quarter compared to 1.6 million a year ago and 2.4 million in preceding quarter. For the full year, Internet EBITDA increased by approximately 4.2 million or more than 78%. Our revenue for cable modem was \$31.94 per month that compared to \$33.51 at the end of the first quarter and \$37.63 at the end of the year ago quarter.

Our average rate per modem is declining as expected as we are working to convert our dial-up customers to our entry level modem service. We deployed another 4,300 cable modems during the quarter, now have approximately 65,500 units in service representing an increase of 19,500 over the last 12 months. We also have almost a 1,000 DSL subscribers in addition to our cable modem subscribers. More than 99% of our cable homes passed, are able to subscribe to our cable modem service.

At yearend we were serving approximately 36,100 dial-up Internet access accounts down to the 49,600 and 39,900 we had a year ago in last quarter respectively. This continued [ph] decline is expected as more and more people are giving up their dial-up service in favor of broadband applications. Our 3 allied [ph] free bundle has been effective in accelerating this migration and attracting new customers.

Other items of interest, we are nearing completion of our efforts to comply with Sarbanes-Oxley section 404 that requires us to report and our auditors to opine on the effectiveness of our internal controls over financial reporting. As I've mentioned, we invested material amounts of the company's financial and personnel resources towards compliance with these regulations. As of today, we are not aware of any issues that might be described as material weaknesses their work is not yet finished so I am not yet ready to state unequivocally that not exists.

We currently expect to have our report completed in time for inclusion of Form 10-K when we file it in mid March. We were busy with respect to our stock repurchase program during the fourth quarter and prior to the January blackout period. As you probably know, we sold an additional 70 million and 7.25% senior notes at par during the quarter, we used the 41.3 million of proceeds to acquire 3.7 million shares of our class A and all 10 million of our [indiscernible] series C preferred stock owned by MCI. During last quarter call, I mentioned that we had at that time acquired 170,000 shares of PCI common at an average price of \$9.18 per share. Since then excluding the MCI purchase we acquired another 413,000 shares at an average price of \$10.57. The effect of these repurchases was the shrink of fully diluted share account by approximately 4.4 million shares since January of last year. We obtained the necessary consents and the Board has approved the purchase of additional 7.6 million of stock repurchases through June 30 of this year depending on market conditions of the continued financial performance of the company.

During the fourth quarter, we used \$824,000 of our remaining credit with MCI, during the year we used a total of 4.2 million leaving a remaining unused balance of 3.7 million at either end. We expect to recover most of the remaining balance during 2005.

Guidance and economic prospects, a year ago I indicated that we expected to generate revenues of 410 million to 420 million and cash flow of 129 million to 134 million excluding the affect of the

MCI receivables recovery. We exceeded the high end of our revenue guidance by 4.8 million and our cash flow guidance by \$800,000. Last quarter, I indicated that we expected to exceed the high-end of both our revenue and cash flow guidance for the year. We exceeded all of our prior guidance for revenues and met our recent guidance with respect to cash flow.

We entered the year with favorable momentum in almost all areas, but for switched carrier traffic. The economy in Alaska continues to be strong. The prospects for most of our business units appears quite promising. Global and domestic forces are enhancing the livelihood to one or more large economically favorable projects and including construction of a gas pipeline. Opening the NVAR [ph] or continued development of the ballistic missile defense system may become a reality.

Now withstanding all of that, we can expect the first quarter of 2005 to be a little soft. The first quarter will continue to be burdened by ongoing Sarbanes-Oxley compliance and we expect to experience continued rate compression in the long distance business and increase in local loop rental cost.

With respect to the first quarter of 2005, we expect to generate revenues in the range of 105 million to 107 million. We expect to generate cash flow of 33 million to 34 million including MCI credits. For the full year, we expect to generate revenues of 430 million to 440 million, and cash flow of approximately 144 million to 146 million including the MCI credit, but before non-cash charges associated with the new requirements to expense the cost of stock options beginning in mid-year. We expect the first quarter to be the weakest of the year and we expect the results to ramp up as the year progresses.

Liquidity and capital expenditures, we are in good shape with respect to liquidity. We began the year with more than 30 million in cash in the balance sheet, and our \$50 million of revolver available except to approximately 4.7 million in outstanding letters of credit. Our Senior facility will not require a principal payment until the end of the first quarter of 2006 although we will make scheduled principal payments of approximately 6.4 million in 2005 on our satellite facility. We don't expect to draw down our facility during 2005 as we expect to generate free cash flow during the year most of which would be used to continue our stock repurchase program. Extension of our plan beyond the 7.6 million, I mentioned earlier, would require the approval of our Board, our senior vendors, and the owners of our Series B preferred stock.

We invested approximately 29.8 million in capital expenditures during the fourth quarter, and approximately 112.6 million for the full year including 32.2 million that we invested in our new under-sea fibre. This exceeded prior guidance of more than 97 million for the full year including the fibre. The bond add on in the fourth quarter gave us a little more flexibility to accomplish from stands [ph] that would otherwise have been deferred.

Investments during the fourth quarter were made in the following areas, long distance about 5 million, cable entertainment 5.6 million, local services 5.2 million, Internet access services 2.4 million, improvements to our north slope and under sea fibre 1.2 million, administrative support 5.9 million and some of the items not yet allocated about 3.7 million. In addition, we accrued 800,000 in future of capital retirement obligations.

Capital expenditure requirements beyond approximately 25 million per year may have capital are largely discretionary in nature. We currently expect that our capital expenditures requirements for 2005 will total somewhere in the \$80million to \$85 million range. Depending on the available opportunities and the amount of cash flow we generate during the year. In order to accomplish our free cash generation goal we will need to hold capital expenditures to approximately that level.

To recap our cash forces that uses [ph] on a simplified basis. We generated approximately 139 million EBITDA. We increased our net debt by 66 million to total forces of 205 million. Uses of cash included interest expense of 27 million, CapEx of about 112.6 million, common and preferred

stock repurchases of 45.7 million, bond premium and issuance cost of 13 million, preferred dividends of 1.6 million, leaving approximately 5.1 million for other items. Assuming we generate 145 million of EBITDA for 2005 should have been approximately 32 million on interest expense and invest 85 million in capital expenditures, we would have 28 million remaining for other items including additional share repurchases. Approximately 160 million of our 477 million in debt is floating rate debt. Our cash interest expense at current rates is now running at approximately 32.25 million per year. Compared to the last two quarters, annualized cash flows of approximately 137.8 million; our cash interest coverage is approximately 4.27 times and our leverage at yearend on net debt is just over 3.2 times cash flow. On gross debt our leverage is 3.46 times.

In conclusion, we are very pleased with what we accomplished over the last year and we are very excited about the prospects for 2005 and beyond. We will now be happy to answer any of your questions.

■ QUESTION AND ANSWER SECTION

Operator: [Operator Instructions].

Anthony Klarman, your line is open. Please state your company name.

<Q – Anthony Klarman>: Thanks. It's Deutsche Bank. A couple of questions and we'll see if maybe I can tack a followup on. If you look at the revenue growth number for this year, it was around, I think 8.7% was the number that was given in the MD&A. And if you look at the guidance for the coming year, it contemplates a much softer increased level than the '04, and I guess I'll. I am wondering to what extent are you factoring in any sort of contributions from Wireless or Wireless in that number and without Wireless would we actually see, if to the extent there is Wireless included in that revenue guidance number. You know, without Wireless, will we actually see a flat to suddenly down topline. Is that pressure coming mostly out of the LD [ph] side?

<A>: I am not, this is runback and I am not sure off the top of my head, how big the Wireless number is. But I don't believe its material. It's probably the most of the minimus in our forecast for this year. We have taken a very, very cautious approach to entering the Wireless market for fear of overburdening the resources creating problems with customer shifts. So that's a go-slow project for us and with the resale arrangement doesn't produce materially with our contribution anyway, so that's not a material amount of element, a material amount of Wireless in the numbers. I think what you are seeing is a slowing of growth in general as we get closer to our long-run shares in the local business. But no, I don't think there's a net decrease overall in the long-distance business; certainly we are seeing continued pressure there that departs [ph] the rate of growth in the business is slowing down a little bit, but no I don't, it's the shrink it is as you have seen in other long distance participants else where in the country.

<Q – Anthony Klarman>: And just well around the topic availability I imagine its not the case but I would guess neither of the 2 contemplated M&A transaction from the lower 48 both SBC, AT&T and Verizon and TI [ph] would have any material change on that business. I assume that you would be able to just carry over just agreement with Verizon. With MCI I should say over under the combined Verizon and MCI to the extent Verizon does want to be the winter?

<A>: We don't at this point see any significant change in our business environment as a result of the proposed transaction, but today the transactions are somewhat undefined at this point, b) you've got year to a year and half to close in and then probably another couple of years before they digest and figure out what they have got. And the whole environment that we operate and continues to change. So my, my net take would be no material concerns to the 2 or 3 year time horizon and uncertain how you predict. What happens to the industry as a whole beyond that, but our position in this market really comes down through the strength of our facilities platform. We are the only one who have, a redundant undersea ring fiber optic cable went in now the marketplace. We have stable like digital facilities covered with our satellite and really have the most expensive enterprise network in the state. So regardless of where traffic originates, the bulk of the traffic coming to Alaska needs to transgress our network. So not concerned there other than the general impact on the industry as a whole and in that regards there is probably some negatives from the regulatory perspective in the fact that former advocates are they competitive structure are being [indiscernible] by companies that are probably less stroke competitive in our regulatory approach. That suspect to offset by the fact that the general consolidation in the industry its capacity is stocked up into fewer numbers of larger nation wide providers its probably a positive over the time horizon for in the business.

<Q – Anthony Klarman>: And going to Alaska stock buy back question and then what other people have been I think our numbers can't show that you guys have spent roughly I'm excluding the stock repurchases in conjunction with the add-on to the bond offering just the regular stock repurchase program you had done the you spend [ph] \$5.9 million I guess over the third quarter

and the fourth quarter and I thought you had mention there was an additional 6.7 million availability I thought the original threshold that you would had got approval for was on the first 10 million of repurchases. So I was wondering if you clarify that and whether you will seeking to increase that basket. It sounds like if you would dedicate a good portion of your free cash flow, towards stock repurchases, you would need to go back and get some additional permission from the banks and some of the preferred holders?

<A>: Yeah, the initial approval was for 10 million for the calendar period ended December 31. And we sent about 4.3 of that by yearend and then we spent another 2.4 million in the first quarter of '05 and we kind of wanting to move to about 5 million per quarter run rate and so, we have got approval for 10 million through June 30. So of that we've spent lets see 2.4 million and that leaves 7.6 million available through the end of June 30, Anthony.

<Q – Anthony Klarman>: I got you, so that was.

<A>: It was 10 million on the calendar basis through that point.

<Q – Anthony Klarman>: I got you, it wasn't a hard 10 million it was a calendar 10 million, so at Jan 1, you got the 10 million of CapEx [ph] back.

<A>: That's right exactly.

<Q – Anthony Klarman>: Now, your comments sort of elude to a large number of event 10 million, if you are looking at a free cash flow in a row, roughly 28 million and some of you know and the special projects to be done are you going to be seeking additional capacity from the bank in the preferred holders [ph]?

<A>: Yeah for sure, the 10 million basically is an annual announced at our senior credit facility device forum and but our board has approved a 5 million per quarter at least through the June 30 with the idea that we'll revisit come summer. But the expectation is we would continue that at a 5 million per quarter rate through all of '05 maybe in stepping up depending on the markets and financial performance and so on other variables. But definitely I think we are settling in, I think in the near term on about a \$5 million per quarter minimum spend on that.

<Q – Anthony Klarman>: Got you, thank you.

<A>: Yeah.

Operator: Liam Burke, your line is please state your company name.

<Q – Liam Burke>: At Ferris Baker Watts. John, how are you today?

<A>: I'm fine Liam.

<Q – Liam Burke>: You talked about stepping up CapEx through the end of the year to about \$112 million, in fiscal '05. Have you avoided any or have you reduced your plan CapEx down to the 85 or is that as a full on 12 [ph] in our projects that were exclusive of your 2005 budget?

<A>: All right, yeah, Liam, I think part of the plan was kind of put 2004 behind us [indiscernible] as much into '04 as we could that was basically wrapping up and then set the stage really going forward for not just theoretical, but through generation of free cash flow. And therefore, I think looking forward we are going to be limited in our investments in CapEx, to a level which will allows us to continue to start buy back plan.

<Q – Liam Burke>: Okay.

<A>: Plan, and bear in mind there is a lot of discretionary items in the CapEx budget now for example IT spending and things like that. So you know we turned up the gas on lot of that part of that was inspired by you know at the Sarbanes-Oxley requirements where.

<Q – Liam Burke>: Okay.

<A>: Some of our old systems, you know, they were held together with bailing wire and the Sarbanes-Oxley thing kind of inspired as since the money, in that area where we wouldn't otherwise had been really excited about spending it. So, we turned off the gas there part of that spills over into the operating cost because until you get some of these new systems up in running we are essentially working on and maintaining 2 systems so that's cause a little bit of spill over to the operating cost side.

<Q – Liam Burke>: Okay, here is my next question, SG&A was up considerably, you talked about Sarbanes-Oxley I have got to assume that regulatory as legal had a lot to do with it too. You were in the quarter locked in on the regulatory front but in terms of the additional SG&A that you got with this year. If Sarbanes-Oxley in terms of other contributors there what were the big ones?

<A>: Well if you look at the big picture on SG&A, I think we probably actually for the full year decrease the overall rate as a percentage of revenue.

<Q – Liam Burke>: Right, okay.

<A>: In '04 probably in the lowest level we are seeing not by a large [ph], but so on it, from big picture basis you really haven't seen much of a wholesale change, I think, what caught everybody's attention is just the sheer magnitude of the Sarbanes-Oxley impact, just kind of landing mostly in Q4 bringing in take \$1.6 million lob in there just to produce difference. So, and hopefully a lot of that is going to be non-recurring and you know like I said its going to some trail into the first quarter of '05 due accompanied by, you know, any increases in our audit fees and so on but hopefully that's going to stabilize and level out in '05 something lot less than dramatic then what you have seen. Beyond that I think if you look at our personnel cost I think we probably start the year with 1,250 employees and today we have got 1,350 so you know, we added a little bit there but part of that is to report the revenues you know legal and regulatory costs were certainly high but they are always high there I don't think anything jumped out there. So I really attributed mostly to Sarbanes-Oxley unless you guys have any revelation that you want to throw out here too.

<Q – Liam Burke>: Just one thing I will add to that is that the number that John reporting there for Sarbanes-Oxley really understates the impact on the organization. The 1.6 million is what is quoted to accounts related to additional audit fees and accountants and programmers crawling all over the place. There is a substantial drag break on the whole organization, because we devoted a tremendous amount of time and energy from almost the entire management team to run through this fire drill. And largely I think it's produced little tangible benefit for the company other than slowing down progress in the last half of the year, and substantially increasing audit fees. But when you look at the last half of the year, performance, I think you will have to factor in that 1.6 million, just a bucket, that went directly through that, there was a large drag break operating on the organization as a whole because everybody was spending a lot of time in dealing with it. So, I think, that's part of the plateauing effect you see.

<Q – Liam Burke>: Okay. Thank you.

<A – John Lowber>: Here just a wrap up for you, William [ph] you know we talked about 1.6 in Sarbanes-Oxley, I think the other IT cost were probably up about 1.5 and accounting was up a little bit. Those are really the ones that jumped out at me.

<Q – Liam Burke>: Thanks John.

<A>: Yeah, and further also refreshes my memory that the 1.6 we are talking about is just a Q4 burden. I think the total burden for the year was something over 2 million for Sarbanes-Oxley.

Operator: Richard Henderson, your line is open. Please state your company name.

<Q – Richard Henderson>: Thank you, Stephen Nicholas [ph]. Just quickly on the transition to digital phone, 8000 subs that are migrated. Can you quantify the cost savings on loop rental and wholesale cost of those migrated subsequently?

<A>: We've put in approximately \$20 bucks a loop and the average sub is 1.3 loops, and you pay it once a month and you probably got a calculator.

<Q – Richard Henderson>: Yeah, got it. Okay, and on your Sarbanes-Oxley that's going to spill over into Q1, you know you said 1.6 million was the fourth quarter, do you have any idea what that number is going to be in the first quarter?

<A>: I am hoping it will be less than half of that.

<Q – Richard Henderson>: Okay.

<A>: 8 million [ph].

<Q – Richard Henderson>: Thank you.

<A>: You are welcome.

Operator: Todd Rosenbluth your line is open. Please state your company name.

<Q – Todd Rosenbluth>: Hi, Standard & Poor's Equity Research. Can you give some clarification, we talked about our a tax rate, deferred taxes, pushing things up in the fourth quarter and '04 is a 40% tax rate, something that's more reasonable looking at towards '05?

<A>: No, hold on just a second Todd.

<A>: Well let's start with the caveat to that this is all non-cash. We are spending on a 170 million plus in NOLs and we don't anticipate being a cash taxpayer for at least the next 5 years. So, well I understand people track the EPS; any significant concerned about fluctuations in the effective tax rate is really obvious mystery numbers because all you are doing is adjusting the use of the NOL. None of this has any cash tax impact.

<Q – Todd Rosenbluth>: Right.

<A>: But lot of folks like attract the EPS

<Q – Todd Rosenbluth>: I think you have seen the stock market tracking that right now.

<A>: Right. Todd, I think we are looking at about a 42% rate in the budget that we got for '05 that contrast to 45%, a little over 45% this year and about 38.5% last year. Last year in fourth quarter you'll probably recall we had a same kind of true up [ph] except it went the other way. We had a real go affective rate, this year we kind of got jacked up because in part due to some audit adjustments that affected our, IRS audit adjustments that affected our NOL, so that was exacerbated there. Plus we had \$1 million dollar a depreciation true up [ph] in Q4, which affected the EPS as well Todd.

<Q – Todd Rosenbluth>: Okay. And then you are talking about local market share reaching about 24% and then you also alluded to what will happen in '05 or what's likely to happen in '05 due to starting to reach your long run goal and target to, is there some quantification? Is 25% market share something that you are expecting and satisfied with as you are rolling out cable telephony?

<A>: No actually that, be careful how we report the numbers there because the 25% represents our share of loop on a statewide basis but our competitive footprint really only extends to slightly over 60% of the total loops in the state. So, if you want a affective market share you got to take the 25 over a 60. And we probably had a mature penetration or very close to. In Anchorage, we have a year or so to go to a mature penetration in Fairbanks and Juneau. And then as John mentioned in his text we've just filed application to serve another 11 locations which will bring an additional 30 percentage points of statewide local loops into the footprints, so at the time those applications are granted and we are competing in all those places will have competitive facility available to 90% of phones in the state. We've always said that we though we should do something pretty close to half the markets. So there is a substantial upside from the 24, some of that will take a little longer. John also mentioned the order for the Matanuska [ph] telephone association just North of Anchorage that order that we got earlier this week is one that we expected to get about 10 months ago and originally we had anticipated entry into that market this year, because that order now has another 270 days of negotiations associated following that entry will be delayed till next year. So, just going to see a bit of a gap in these ramp up of the local footprint. But, ultimately we expect to provide competitive service to 90% of the phones in the State and I think you should assume that we'll be something close to half the market.

<Q – Todd Rosenbluth>: So, while '05 will go neat, not show this impact as it did in '04 longer run you are confident in taking up more markets there, is that a necessary assessment?

<A>: Nothing to date has demonstrated that we don't take 40% or 30% of the market when we get into the market. We are at those levels in anchorage. We are coming up on those levels in Fairbanks and Juneau. Had the world go on the way we anticipated it from a regulatory perspective, we would have been starting that ramp in the Matanuska valley which is another 60,000 telephone lines this year that not going to happen till next year. But yes, I am quite confident that over the 5-year period we will approach something along the lines of those shares for 90% of the footprint in the State, which is a significant increase in the number of local lines that we'd be providing and over that same period we expect the transition mostly into our facilities with the provision of that service.

<Q – Todd Rosenbluth>: Okay. Thank you.

Operator: Our next question comes from Rick Black. Please state your company name.

<Q – Rick Black>: Blaylock & Partners. How are you doing guys.

<A>: Great Rick.

<Q – Rick Black>: I was just looking in some of the cost of service, I think it was up sharply and I do suspect its, a portion of that has to do with the rollout of wireless service business. However, you did say that you are having a soft rollout and it was definitely something that you weren't looking to get substantial contribution from 2005. Due to the cost at the service level has, should be impacted an impact as we go forward, as we look at wireless service in general. How should we look at that going forward? Are we looking forward that to be sort of like a run rate what you expect for the rest of year in terms of cost of service, or do you expect that as you started to be more successful with that cost of service it suddenly gets starts to go up to a higher level?

<A>: I don't think wireless is what's doing it. I'll let John talk about the components here in a second, but I think wireless is largely at the minimus effect on the company from both the revenue and the revenue cost and EBITDA perspective this year. I think there is some other things going on there in the distribution cost line and John may have a little bit that he can elaborate on that.

<A – John Lowber>: Yeah, I think where the biggest a figure [ph] or what you are looking at I think its probably what's happening in the LD side and of course that's where we have our wireless, but wireless is having a diminutive [ph] effect on that as we speak. Part of the difficulty, if you look at the margins on LD you would see that they were basically flat of this quarter versus the year ago quarter. What troubles you would be the decline in the rate compared with third quarter. Now the third quarter got hammered as it always does, because of the seasonality, things just taper off yeah the fourth quarter, things is taper off in Q4. The third quarter is always particularly strong and I think I characterized this last quarter as surprisingly strong so we went from a surprisingly strong quarter which had as I mentioned \$900,000 favorable credit on the distribution cost side that didn't repeat in Q4, you know, you are contrasting a real strong quarter back against a more normal quarter. And I think a lot of it too is operating leverage and that you know the more [indiscernible] you drive on the network the better the thing looks financially you start seeing the minutes run off a little bit which we did in Q4 then it is going to effect margins. Looking ahead you know, certainly there is going to be continued pressure on rates. The big question is what happens in the carrier traffic, carrier traffic seems to overwhelm really what the switch business is a whole. We think that we have got some plans which are going to turn the carrier traffic back into the strength that it has been historically which could help drive those the rate as a percentage of revenue back down to consistent decent levels. They actually have been, but for the third quarter had been widening in part because of the effect of the local, our success in the local business because we don't pay access cost on the switch traffic if they transit to our local network. And there is some other things going on you have looked at I think probably seen what happened AT&T here recently prepaid calling cards, there has been some schemes of by [ph] some of our competitors either to avoid access completely which runs off our rate or to re-characterize traffic which effects our access rates and we think we have been aggressively involved in trying to right the wrongs that has been through us and should see some benefit on the access side as some of those issues get resolved. So stay tuned wreck [ph] lot of moving parts but no I don't there is going to be any huge changes in access cost going forward.

<Q – Rick Black>: Okay, thank you.

Operator: Rogers Baskin [ph] your line is open please state your company name.

<Q>: Yeah Baskin Rogers [ph]. 3 questions to Ron well, John you run away and put some order in the pipe, we already stocked at this point?

<A>: You strike fear in my heart when you do that to my direction Bill [ph].

<Q>: Could you give us Ron, some conceptual picture of where this natural gas pipeline stands at this point, I believe all sort of things but I can't commit to all pieces at this point?

<A – Ronald Duncan>: Well, what I would like to do is greater [ph] accuracy I would be a trader in the gas market town, I wouldn't be in this job. I think, that we should see someone significant clarity with respect to the gas line within this year. There are active negotiations going on right now among the states, the resource owners, and the potential transport providers, while everybody would like to have more incentives before investing the money. I think, the general [indiscernible] is such that the energy builder did finally declare the Congress had sufficient certainty in it to allow the projects to proceed. The continued high level of resource prices particularly gas prices, is a strong incentive to the contract or to the project and the state government is working diligently to bring the producers in the transport providers together with the state which itself is a substantially owner of a portion of the resource. And my guess is that we'll see some sort of the definitive agreement by the

end of the year, which will mean the project starts moving forward in earnest at that point, although there is lot of preliminary work going on. That then, we'd start a probably 5 to 6 year ramp to peak construction followed by a year flatter [ph] and then a more sharp fall off as the construction terminates. It something on the order of \$30 billion [ph] project more than half of that should be managed through the Alaska and I anticipate very significant upticks in the Alaska based employment and the Alaska economy in general. Starting probably significantly the year after the project is agreed to so probably '07 and then ramping fairly rapidly for a couple of years. We see it as a significant boon to our consumer and our overall business in the state. Its part of what we see as an overall pretty help the economic picture for the state.

<Q>: Ron now we are talking about the pipeline that will run through the United States, we are not talking about the pipeline that will go through Canada, right?

<A – Ronald Duncan>: Now, this would run from Prudhoe Bay down through Fairbanks, it would take an east turn at Fairbanks and it would go across Canada to about Alberta where it will tie into the existing natural gas distribution hubs that provides gas that gets into Chicago in the Mid West turning [ph]

<Q>: Okay.

<A>: Adequate capacity beyond the Alberta this is to bring another, I think its 4 trillion cubic feet of gas to Alberta hub, it then will essentially end up in the Mid West. So, it's ultimately for your Carl [ph].

<Q>: Good. Two other quick questions, first of all can you give us any ideas of the conditions of your satellite? I know in the last conference call we talked about one of the satellites I think had a failure, I think since then there has been another one. Does your satellite got the same component that are failing?

<A>: Our satellite is okay in the sense that it is able to continue to provide service with no expectations of any catastrophic failure, no reasoned to expect that. It does have a shortened life. I believe we are looking; we will have to replace it in...

<A>: Early '08.

<A>: Early '08 as opposed to having run through '11 or '12 as originally anticipated. It is under warranty, what we will face is we will face a, reap a decision that will probably to the repurchase of another 12-year life satellite sometime in '07 or '08 rather than deferring that purchase out until '010 or until 2010 which ordinarily would have occurred. So we'll spend another junk of capital. Although sooner there is no economic loss to us if the sense that our warranty covers the full period that we paid for but because they will launch a new satellites to replace it will have to re-opt for a full 10 or 11 year period earlier than we anticipated. Our folks to monitoring it quite closely, we don't believe there is any risk to services and in terms of the long economic impact its present value neutral.

<Q>: Okay. Last question, could you give us kind of a quite review of positioning in the competitive status of the other undersea cables versus your undersea cables?

<A>: I could try. We haven't seen much impact from the other undersea cable in our marketing and our sales efforts. The construction of the second undersea fiber which gives us the protected redundant service to the state and early put us in a position of being the only one to able to offer the geographically reversed [ph] ring service has had a strong favorable impact on our ability to sell to the customers who need protected capacity which winds up being most of the carrier customers and virtually all of the enterprise customers. And we've been able to win most of the service procurements in substantial parts of leasing parts because we offer a level of quality facilities, if the

other guys doesn't. I just haven't seen any really significant impact on our business from the other party in market place. They are continuing to sell to some other proprietors they feel look into the follow on conference call here relates to you as you might get some color on that with ACS is contractually committed to take down a large chunk of additional capacity from the other provider and I believe AT&T has some future capacity a long time ago contracted to get on that cable but other than that I am not aware of any significant sales that the other providers has made.

<Q>: Okay, the old AT&T cable was pretty much mixed out couple of years ago, was it not so we are talking about capacity and the one that was built for the Australians?

<A>: That's right, the old AT&T cable has now been shut down.

<Q>: Oh it has?

<A>: Yeah, that was when we took a write-off in the fourth quarter of last year of 5.8 million representing our unamortized ownership in that cable and the owner of that cable got in a dispute with AT&T and it lead I believe to the secession of payments by one party and the secession of service by the other party and that cable has been shut down and may or may not actually being having some additional financial effect on that whole undersea branch. But that cable is out of the market, the only other cable facility at this point in the market is the cable that was built by the Australians and was originally purchased, is now owned by company called Crept [ph] which is the Carwell [ph] venture that bought it out of bankruptcy.

<Q>: Okay, thank you.

<A>: Next [indiscernible]

<Q>: Going buy stock.

<A>: I will do it Carl [ph].

Operator: Our next question comes from James Lee, please state your company name.

<Q – James Lee>: Decision Economics [ph] thanks for squeezing me through the call. First question is on the LB [ph] side and obviously the margins all week this quarter, given what you talk about you know building your local footprint on the cut at cable plan on talk [ph] what I had different plans to increase your operating leverage. On the models should we looking at the margin bouncing back from 28% to your, sort of, historically normal mid 30's, may be by the second half of this year.

<A>: You are talking the gross margin on the LD business.

<Q – James Lee>: EBITDA margin.

<A>: Overall.

<Q – James Lee>: No, EBITDA margin.

<A>: EBITDA margin?

<Q – James Lee>: Yeah.

<A>: We have to do the math yet its comfortable I don't think just off to talk my head. I think we should resume close to normal levels.

<Q – James Lee>: Yeah. Sarbanes-Oxley?

<A>: Yeah.

<Q – James Lee>: So this most of the uptake in SG&A is not really attributed to Sarbanes-Oxley?

<A>: Yeah [indiscernible].

<Q – James Lee>: IT upgrades that.

<A>: There is a little bit abnormal creepers all of our costs go up but really it was dramatically effected by the additional, you know, as I characterize hopefully non-recurring Sarbanes-Oxley so.

<Q – James Lee>: Okay that's good news. On the cable modem side, on your internet business, seems like a very nice upside, the price in terms of EBITDA margin I was wondering if that's sustainable going to 2005?

<A>: I think that we will see continued good growth in cable modem. Actually 2004 was characterized as much by anything by a drop in the average revenue from modem, we were very aggressive last year in putting out the lower price modems. We felt that to keep modem penetration going we needed to get in the market real aggressively and in fact we have established the goal internally that we want to get rid of all of our dial-up customers by converting them to cable modem and to do that we have done every thing from lower price to in some cases operating a free low speed cable modem as part of some of our bundles. And then in the latter part of the year we started some marketing plans to upgrade the speed on those modems, we run speed weeks where we double everybody's speed for week or two and then we offer them the opportunity to buy the increased speed. So in think we will continue see two things happening on cable modem line I anticipate that we would be able to continue to deploy substantial numbers cable modems into our free customer base and that we should see that revenue start to come back up in terms of average revenue for modem as we find ways to sell more speed to the people who are now on that product. So I think there is a continued good opportunity in the cable modem space and its clearly still the preeminent high speed product in the marketplace.

<Q – James Lee>: Okay, as Ron can still clarify on the EBITDA margin side was pretty solid in 4Q. I wonder if that kind of level is sustainable wonder if both guys could comment on that?

<A>: I think it was probably a little bit higher than, I think it was affected. If you look at the you know, the revenue it took a little bit of a dip and the operating cost took a little bit of a dip and yet was EBITDA was pretty solid. I think that, part of that is a limiting [ph] entry that reduced some revenues and reduced some operating cost, it's not going to recur. So, I think using the fourth quarter would be too optimistic James.

<Q – James Lee>: Okay. Would you be using you know your historical sort of [indiscernible].

<A>: I think maybe, just historical with a little bit of a favorable fit to it.

<Q – James Lee>: Okay, all right let me [indiscernible]. Last question here, rather going to be on spot again. Do you guys have any update on your thoughts on dividend policy?

<A>: Sure, I'll do that one now. We are focused at this point on using free cash flow to repurchase stock and I wouldn't anticipate any change in that for at least for the next year to 18 months. We've discussed this with our Board and we believe that given certainly the current trading multiples and the stock on sales today I am sorry we have to wait awhile before we can get back in. But we believe the appropriate use of the free cash flow is to buy in stock. When the stock gets some more appropriate industrywide multiple we might come back and really consider that decision. As

John said earlier, our target right now is \$5 million a quarter and commitment to review that later this year with a look towards possibly accelerating that as our free cash flow grow.

<Q – James Lee>: Okay, Ron also can you just give us some reminder as to if you need even debt holders permission in terms of, in spite you get to the level where you feel comfortable issue dividends, are there any restrictive covenants within your debt that you need to reconcile on your debt holders.

<A – Ronald Duncan>: On the senior debt we will currently need consents for dividends. Although we, given our current performance our senior debt leverage levels we don't anticipate difficulties obtaining consents from the senior lenders for any reasonable sort of financial strategy and our senior debt will almost certainly be refinanced within the next 12 months. This is the question of timing as to when we choose to do that and obviously when we do that we will fill in the ongoing flexibility for stock repurchases at the level that we expect to incur and/or anything we might choose to do with dividend. As I said what there is really just a hand over from the financial instruments, that's 4 or 5 years old and we can clean that up because we certainly have the financial strength to do but we just gotten transitional waivers right now because we've elected not to spend these to refinance upfront.

<Q – James Lee>: Okay, thanks a lot.

<A>: Yeah, and James the bonds have very little basket which allow repurchase of dividends so the only other issue would be Series B preferred, which is getting to be smaller and smaller as they been converting into common. So, that's not going to be an issue much longer and they have been real cooperative in the past anyway. So I don't think that will be problem either.

<Q – James Lee>: So, are you guys are expecting to be pay them Series B preferreds lets say first half of this year?

<A>: Yeah, we think they will get converted to common before the year is out.

<Q – James Lee>: Okay, that make sense. Thank you.

<A>: Thanks James.

Operator: [Operator Instructions]

<A>: No more questions. I think we will cut it off Dana [ph] is there is one coming in.

Operator: There is one more question Anthony Klarman. You may ask your question please state your company name.

<Q – Anthony Klarman>: It is still Deutsche Bank.

<A>: That's reassuring giving the recent trends in that business Anthony.

<Q – Anthony Klarman>: You are not kidding. I'll won't want you to go without asking one competitive question, since we will have one of your competitors conference call in a couple of hours. I am just wondering if you have seen any competitive response to some of the new bundled service offerings you guys have put out, if there is been any proactive competitive response on your intending or on going rollout of some sort of wireless products into that bundle, and what might that help with the pricing?

<A>: Say that last half of the question again.

<Q – Anthony Klarman>: I guess first any competitive response on the new bundle service offering that you guys have put out, you know over the course of last half of '04 and second any proactive response from the competitors in terms of you know, now that you may be adding wireless into that bundle have they gone more competitive on price?

<A>: Well I am sure that my counter part ACS will tell you in a little while that they doing really well with wireless and I don't think we could disagree with that. I think ACS has been strong on the wireless front, they have got a quality product and they are pushing it aggressively in the marketplace and my anticipation is that they're doing quite well with it. Whether or not that's in expectation of our imminent addition of the wireless product to our bundle or whether its just because its just because it's a good product that they had to sell, I don't know. We haven't seen what we feel to be and erosion in our customer base as a result of the wireless offerings from ACS. Although I certainly think, they're giving the wireless market a good run for its money. We are certainly saying wireless customers heading that way, we hope to getting some of that when we get up false rate [ph] on wireless, but I don't expect that to happen very rapidly here, I think it will be a slow ramp. In terms of ultimate package and our core products bundle, we are very, very pleased with the success of that, nobody has come anywhere close to being to match the \$79 for all four services bundle that we have got in the market place we have a large percentage of our customers online at this point and we were expecting to approximately double the number of customers we have on that product over the course of this year to a very stable product that low churn, that has very high up sales rates as consumers discover the inherent value in the offering and upgrade services underneath it and other than what ACS has done with their bundle they really haven't seen a response to our to our overall bundle yes at some point that will be a wireless product in the ultimate package but it won't be in the immediate future and likely will be in the, listening eagerly to the fall on conference call to just have what wireless is doing.

<Q – Anthony Klarman>: And on the pay TV side I'm assuming that, that initial competitive push we saw from DBS in particular the Dishnetwork has largely abated at this point?

<A>: This is still clearly growing customers up here and you can't drive around town and ask the additional dish customers. This year what happened was they took their gain out of 2 segments of the market. One with the new homes, I mean, we grew subs year-over-year so we got some share of the new homes falling out as many of the new yet its not the new home specifically built up, the total homes fast we ruled by a couple of percent and we didn't get the full proportionate share that we would have gotten without DBS competition there so obviously they have got a proportionate share of that market and I also think that both we and dish are taking homes from units that don't today subscribe the multichannel video. I think the aggressive price competition in the marketplace combined with the stock promotional offering that I think \$79 pack it seems like such a compelling value that we are seeing non-multi channel video homes come into the base so we are expanding the total percentage of the market served by multichannel video we believe withstand the erosion of our customer base into Dish but that doesn't mean the Dish isn't growing its certainly not growing as fast as it was a year ago when they were taking customers from us at the significant clip [ph] because we hadn't come back with the fully responsible offerings.

<Q – Anthony Klarman>: Thank you very much.

<A>: Sure Anthony.

Operator: Out final question comes from Tiffany Barring [ph] your line is open please state your company name.

<Q>: Hi [indiscernible] just a quick point of clarification on the 800 [ph] digital local phone service line should we assume that 100% or all have been moved over to your service.

<A>: 8,000 BOPS lines is that

<Q>: Yes.

<A>: Yeah, those were basically customers that we were serving on copper loops that we are now serving on the [indiscernible]. They were our customer before we converted them and obviously they are still our customers is that..

<Q>: Yes. So that GE [ph] has converted all 8,000 to your, of the copper on to your service.

<A>: That is correct.

<Q>: Okay, great thank you. All right then one of those last questions if I am still connected.

<A>: No problem.

<Q>: What is the rate of deployment for the additional 25,000 [indiscernible] in 2005?

<A>: Well, we probably accelerate somewhat, I would say its tail end loaded because the process involved converting plant facilities and turning on segments of the plant to be capable of providing BOPS before we can actually turn them up and while its been a mild winter we still can't get in the streets and dig holes in the ground and put as much thru plant [ph] out in the winter as we can the summer. So it will follow most of a disproportionate portion of that will fall the summer construction season.

<Q>: Okay, and have you seen any kind of competitive [indiscernible] as they are contemplated [ph] to find a win original [ph] customers and win those customers back.

<A>: No.

<Q>: Okay, great thank you.

Operator: And there are no further questions.

Company Representative

Okay, no further questions we will wrap it up. Thank you all for participating and we will take again in another 90 days or so.

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