Such contracts effectively allow customers to "shop around" constantly for the best price and service offering—and are further evidence of the highly competitive nature of the Anchorage study area. Moreover, GCI's ability to meet the demand of consumers seeking to substitute GCI's service for ACS's service demonstrates similar elasticity of competitive supply. It is particularly noteworthy that GCI has been expanding its retail output while *reducing* its wholesale consumption of UNE loops.[14] Such elasticity of competitive supply and of consumer demand could not exist in a market in which the incumbent has market power.

The Anchorage Study Area Is the Correct Geographic Market

13. In the *Qwest Order*, the Commission identified the relevant product markets as the mass market and the enterprise market, further dividing the mass market into markets for exchange access and broadband Internet access (although, since the *Qwest Order*, the Commission has found that broadband Internet access services may be deregulated as a whole). With respect to the geographic market in this case, I believe the Commission should view the Anchorage study area as a single economic market, not as five separate geographic markets defined by wire center boundaries.[15] ACS cannot set different prices for different residential customers within the Anchorage study area, so the competition ACS faces protects all Anchorage residential customers. Additionally, if the purpose of examining each wire center is to determine whether competitors have alternative facilities access in each wire center, that analysis would be meaningless in Anchorage because GCI is collocated in all five of the wire centers in the Anchorage study area in addition to having the other facilities already mentioned. In addition,

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[14] Meade UNE Statement at ¶ 15.

[15] Even GCI has noted that wire centers do not delineate appropriate markets. *See* GCI Opposition at 15, n.42.

GCI owns the monopoly cable network that reaches nearly all households in the Anchorage study area. Further, GCI's extensive fiber facilities—and its demonstrated ability to utilize such technology as high capacity point-to-point microwave—could be used to serve nearly all of the enterprise customers in Anchorage. GCI's ability to upgrade or expand its network to serve customers it does not yet reach over its own facilities does not appear logically related to the historical development of ILEC wire center locations.

14. The FCC has itself cautioned against artificially narrow market definitions. In the context of switching, the Commission stated that the market for local switching should not be defined as being so small "that a competitor serving that market alone would not be able to take advantage of available scale and scope economies from serving a wider market."[16] The FCC's admonition with respect to switching applies more generally and implies at a minimum that local exchange markets should not be defined in such a way that artificially severs areas that could economically be served from existing facilities.

15. Indeed, the Anchorage Study Area represents a geographic market in which GCI and ACS meaningfully compete for the overwhelming majority of customers and it comprises a market in which neither company can unilaterally raise prices in a sustained way without losing market share to the other. There is no economic basis for adopting a narrower market definition when market power is absent in the market more broadly defined.

[16] *Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers; Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, Report and Order and Order on Remand, 18 FCC Rcd 16978, ¶495 (2003) ("2003 Triennial Review Order").

The Facts Demonstrate That Forbearance Is Warranted

16. Under any of the applicable precedents, forbearance in the Anchorage study area is warranted. It is quite clear that GCI's entry into the Anchorage mass market and enterprise market has been extremely successful. When it entered the market for local exchange services in 1997, GCI already had a solid relationship with both mass market and enterprise customers. It quickly leveraged its existing status as a long-distance and competitive access provider to enterprise customers—not to mention its position as the monopoly cable franchise—aggressively and successfully pursuing both mass market and enterprise customers. It has garnered one of the highest CLEC market shares in the country; even greater than the CLEC market share in Omaha, Nebraska, the geographic market where the Commission granted forbearance in the *Qwest Order*.[17] GCI's substantial market shares in the mass market and enterprise markets, as well as its rapid transitioning of its customers entirely onto its own facilities, demonstrates the economic viability and success of GCI's entry. This high level of facilities-based competition leads me to the conclusion that consumers in the study area no longer need the protection of the regulation from which ACS seeks forbearance. Indeed, consumers would benefit from the removal of the regulatory asymmetry under which ACS currently must operate and compete against the much larger GCI.

17. The data from Anchorage clearly show that, by any reasonable economic definition, the Commission's standards for forbearance have been met in all relevant product markets. Examining solely market share for the moment, ACS has lost approximately **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** percent of the mass market for switched access services. In the mass market for broadband services, GCI enjoys a dominant market share of

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[17] *See* Blessing UNE Statement at 11.

approximately **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** percent. In the enterprise market, ACS has a market share of **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** percent, as compared to GCI's share of **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** percent. The incumbent's significant loss of market share and the extensive facilities-based network deployment by GCI are proof that the procompetitive objectives of the Act have been met in the Anchorage study area. ACS and GCI have comparable market shares and, with forbearance, would enjoy comparable flexibility to offer adaptive price and service offerings.

18. Furthermore, the ubiquity of GCI's facilities shows that ACS is not—and cannot be—a bottleneck in the switched access market. Already a predominant long-distance carrier in Alaska providing services to enterprise customers, as well as the local cable company serving mass market customers, GCI entered the Anchorage local exchange market in part to reduce the access charges it was then paying. As discussed above, GCI facilities currently are or, by GCI's own pronouncements, shortly will be able to provide switched access service to nearly all of the study area. As such, if the customers of either GCI or AT&T Alascom (another long-distance provider that also provides local exchange services in Anchorage) are unhappy with the switched access charges they are paying to ACS, those customers switch to GCI or AT&T. As such, ACS does not control a bottleneck in the Anchorage market for switched access services and accordingly cannot exercise market power. The success of the Act's pro-competitive aims and the loss of ACS's power to profitably increase prices are evidence of the Act's successful implementation in Anchorage. Enforcement of the regulation from which ACS seeks forbearance is no longer necessary to promote the existence of competition that will protect consumers and ensure rates and practices that are just, reasonable, and non-discriminatory.

19. GCI's extensive facilities support forbearance in yet another way. In other markets with less facilities-based competition, where CLECs compete significantly through the use of the LECs' UNEs, the accumulation of CLEC market share may not provide such a strong case for forbearance given the CLEC's continued dependence on the LEC's facilities. However, in Anchorage there simply is no such dependence. GCI's facilities, which are both extensive and expanding, provide GCI independence from ACS's facilities and provide strong support for forbearance.

20. Looking beyond GCI's extensive facilities, the Anchorage switched access market demonstrates significant intermodal competition as well. This is significant because, in 2005, the Commission modified its market analysis to include wireless and VoIP due in part to "increased subscription to mobile wireless service and VoIP services."[18] Dobson Cellular and Alaska DigiTel both provide facilities-based CMRS alternatives for mass market and enterprise customers. GCI resells service from Dobson Cellular and has announced its pending acquisition of a majority equity stake in Alaska DigiTel. In addition to CMRS, any customer with a broadband connection may use VoIP, which both Vonage and AT&T Callvantage Communications market in Anchorage. Given the wide availability of broadband, VoIP may become a reasonable alternative for many mass market consumers.

21. GCI has substantial resources and experience to continue and add to its success to date. Indeed, GCI is a considerably larger company than ACS's parent, Alaska Communications Systems Group, Inc. ("ACS Group"), which also owns three other LECs and other subsidiaries. For example, GCI reported 2005 revenues and assets that were 36 percent and 52 percent larger,

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[18] *Verizon Communications Inc. and MCI, Inc., Application for Approval of Transfer of Control*, Memorandum Opinion and Order, FCC 05-184, at ¶ 83 (rel. Nov. 17, 2005).

respectively, than those reported by ACS Group. GCI clearly has the size and resources to maintain and even increase its market share, and to continue providing customers in the study area with competitive alternatives.

22. Furthermore, forbearance from the specified regulation is in the public interest and will promote competitive market conditions by allowing ACS greater flexibility in its price and service offerings. Under current regulation, GCI enjoys a permanent "first-mover advantage" because, as noted by the Commission in the *Qwest Order*, the 15-day tariff notice requirements currently imposed on ACS give GCI the ability to move to the market first by reducing its own prices or enhancing its service offering.[19] Every competitive offering by ACS can be matched or bested by GCI before ACS can even make the offer to a single customer. In terms of the prices they pay and the quality and range of services they receive, consumers would benefit more—in both the short run and long run—from more adaptive competition.

23. Continued application of the specified regulation is at this point more likely to have harmful consequences for competition. For example, GCI recently described its market share in Anchorage as "kind of stable."[20] This "stability" demonstrates both that GCI is fully entrenched and that consumers would benefit from the increased competition that would result from the removal of certain regulatory constraints currently imposed on ACS. Forbearance will allow ACS to provide consumers with more adaptive price and service offerings, likely triggering better price and service offerings from GCI.

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[19] *See Qwest Order* at ¶ 46, n.116-17.

[20] GCI Q4 2005 Earnings Call Transcript at 6 (Mar. 2, 2006), attached to the petition as Exhibit B (statement of Ron Duncan).

24. From any economic or common-sense perspective, the Anchorage telecommunications market is a success story. GCI has been so successful that *two years ago* its own senior management was already saying that the incumbent, ACS, "is arguably no longer dominant."[21] Two years later, as GCI has continued to take market share while at the same time reducing its need even for UNE loops, ACS clearly is no longer dominant, and GCI is just as clearly independent of ACS's facilities in providing competitive switched access service in the Anchorage study area.

25. Some relevant comparisons help put in perspective just how successful a competitor GCI has been. The entry of MCI and Sprint into long distance services in the wake of the AT&T divestiture and the entry of DBS into the multichannel video distribution market are both generally considered examples of great competitive success. GCI has outperformed both. In Anchorage, for example, GCI has already achieved a market share that MCI and Sprint together took more than a decade to achieve against AT&T after the 1984 divestiture. When the FCC declared AT&T to be non-dominant in 1995, AT&T still had 60 percent of the long-distance market.[22] Likewise, GCI's local market share in Anchorage is more than double the combined share of the video market that DBS operators won from cable operators in their first eight years of operation.[23] By any measure, the ability of a competitor to enter a market and in a few years to take approximately half of the market share is impressive and, in combination with GCI's extensive facilities, powerfully rebuts any claim that consumers would benefit from

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[21] Rebuttal Testimony of Dana Tindall at 9, RCA Proceeding U-96-89 (filed Sept. 29, 2003).

[22] *Motion of AT&T Corp. to be Reclassified as a Non-Dominant Carrier*, Order, 11 FCC Rcd 3271 at ¶ 68 (1995).

[23] As of June 2002, DBS subscribers comprised 20.3% of total MVPD households. *Annual Assessment of the Status of Competition in the Market for the Delivery of Video Programming*, Ninth Annual Report, 17 FCC Rcd 26901 at ¶ 58 (2002).

continued application of the specified regulation. Indeed, as discussed above, forbearance actually will benefit consumers.

26. The competitive situation in Anchorage paints so clear a picture of vital, facilities-based competition in the relevant markets, that if the Commission does not grant forbearance from the specified regulation now, it is difficult to imagine when it ever would. Short of waiting until the ILEC has ceased to do business, which obviously would not benefit consumers in the least, there is simply nothing else to wait for in this market. A second, fully duplicative facilities-based network of equal or greater quality and capacity is being deployed; supply and demand elasticities are high; and GCI's market hold appears irreversible. Mass market and enterprise customers have their choice of facilities-based providers. Even if GCI went out of business, which does not appear likely, a new competitor could buy its facilities and compete with ACS. In short, the purposes of the Act have been fulfilled in Anchorage and forbearance in that market is fully warranted.

Respectfully submitted,

<u>/s/ Howard A. Shelanski</u>
Howard A. Shelanski
334 Boalt Hall
University of California
Berkeley, CA 94720-7200

ATTACHMENT A

Curriculum Vita

HOWARD A. SHELANSKI
School of Law, Boalt Hall
University of California
Berkeley, CA 94720
shelanski@law.berkeley.edu
(510) 643-2743

Current Positions

University of California at Berkeley, School of Law (Boalt Hall)
Professor of Law, Associate Dean, and Co-Director, Berkeley Center for Law and Technology. Teaching areas include antitrust law, telecommunications law, regulated industries, and contract law.

Experience

Federal Communications Commission, Washington, D.C.
Chief Economist. 1999-2000.

President's Council of Economic Advisers, Washington, D.C.
Senior Economist, responsible for issues of industrial organization, competition policy, regulation, and trade, 1998-99.

Kellogg, Huber, Hansen, Todd & Evans, Washington, D.C.
Associate, telecommunications, antitrust, and general litigation practice, 1995-97.

Law Clerk to Justice Antonin Scalia, U.S. Supreme Court, 1994–95.

Law Clerk to Judge Louis H. Pollak, U.S. District Court, Eastern District of Pennsylvania, 1993-94.

Law Clerk to Judge Stephen F. Williams, U.S. Court of Appeals, D.C. Circuit, 1992-93.

Education

University of California at Berkeley, Department of Economics
Ph.D. 1993; M.A. 1989

University of California at Berkeley, School of Law (Boalt Hall)
J.D. 1992; Order of the Coif,
Senior Articles Editor, *California Law Review*

Haverford College, Pennsylvania
B.A. (history) with high honors, 1986
Phi Beta Kappa; varsity track and cross country

Other

Speak French and Spanish;
Enjoy brewing beer, outdoor sports, travel, and jazz;
Admitted to the Bar in the District of Columbia and in Pennsylvania.

Selected Research & Publications

(With Peter Klein) "Empirical Research in Transaction Cost Economics: A Review and Assessment," 11 *Journal of Law, Economics, & Organization* 335 (1995).

"The Bending Line Between Conventional Broadcast and Wireless Carriage," 97 *Columbia Law Review* 1048 (1997).

"Video Competition and the Public Interest Debate," in Mackie-Mason and Waterman (eds.), Telephony, the Internet, and the Media: Selected Papers, 25th Annual Telecommunications Policy Research Conference (1998).

(With Peter Huber) "Administrative Creation of Property Rights to Radio Spectrum," XLI(2) *Journal of Law and Economics* 581 (October 1998).

(With Jerry Hausman) "Economic Welfare and Telecommunications Regulation: The E-Rate Policy for Universal-Service Subsidies," 16 *Yale J. Reg.* 19 (1999).

"The Speed Gap: Broadband Infrastructure and Electronic Commerce," 14 *Berkeley Tech. L. J.* 721 (1999).

"A Comment on Competition and Controversy in Local Telecommunications," 50 *Hastings L. J.* 1617 (2000).

"Competition and Deployment of New Technology in U.S. Telecommunications," 2000 *U. Chicago Legal Forum* 85 (2000).

(With Greg Sidak) "Antitrust Divestiture in Network Industries," 68 *U. Chicago L. Rev.* 1 (winter 2001).

(With Stuart Benjamin and Douglas Lichtman) TELECOMMUNICATIONS LAW AND POLICY, Carolina Academic Press (2001).

"From Sector-Specific Regulation to Antitrust Law for U.S. Telecommunications: The Prospects for Transition," 26 *Telecommunications Policy* 335 (2002).

"Competition and Regulation in Broadband Communications," in Crandall and Alleman (eds.) BROADBAND: SHOULD WE REGULATE HIGH-SPEED INTERNET ACCESS? Brookings Institution (2002).

(Co-edited with François Levêque) MERGER REMEDIES IN AMERICAN AND EUROPEAN UNION COMPETITION LAW, Edward Elgar (2003).

(With Gilles LeBlanc) "Telecommunications Mergers in the EU and the US: A Comparative Institutional Analysis," in Leveque and Shelanski (ed.s), MERGER REMEDIES IN AMERICAN AND EUROPEAN UNION COMPETITION LAW, Edward Elgar (2003).

"Transaction-Level Determinants of Transfer Pricing Policy: Evidence From the High Technology Sector," 13 *Indust. and Corp. Change* 953 (2004).

(With Michael Katz) "Merger Policy and Innovation: Must Enforcement Change to Account for Technological Change?" in Jaffe, et al. (eds) INNOVATION POLICY AND THE ECONOMY, MIT (2004).

"Competition Policy for Mobile Broadband Networks," 3 *J. Telecom. & High Tech. Law* 97 (2004).

(Co-edited with François Levêque) ANTITRUST, PATENT, AND COPYRIGHT: EU AND US PERSPECTIVES, Edward Elgar (2005).

"Inter-Modal Competition and Telecommunications Policy in the United States," 60:4 *Communications & Strategies* 1 (2005).

(With Michael Katz) "Schumpeterian Competition and Antitrust Policy in High-Tech Markets," 14 *Competition* 47 (2005).

(With Michael Katz) "Merger Analysis and the Treatment of Uncertainty: Should we Expect Better?" forthcoming in W. Dale Collins (ed), ISSUES IN COMPETITION LAW AND POLICY, ABA (2006).

"Antitrust Law as Mass-Media Regulation: Can Merger Standards Protect the Public Interest?" 94 *Cal. L. Rev.* 371 (2006).

(With Michael Katz) "Mergers and Innovation," forthcoming, *Antitrust L.J.* (2006).

"Adjusting Regulation to Competition: Toward a New Model for U.S. Telecommunications Policy," forthcoming, *Yale J. Reg.* (2006).

D

Exhibit D

MANAGEMENT DISCUSSION SECTION

Operator: Welcome and thank you for standing by. At this time all participants are in a listen-only mode. During the question and answer session you may [indiscernible]. Today's conference is being recorded, at this time, I will turn the call over to Mr. John M. Lowber, Chief Financial Officer. Sir, you may begin.

John M. Lowber, Chief Financial Officer, Senior Vice President, Secretary, Treasurer and Member of Finance

Thank you and thank you for joining us today. I am John Lowber, the company's Chief Financial Officer; I have got Ron Duncan, our President and CEO here with me today. We have got Dana Tindall with the Legal and Regulatory Department and Bonnie Paskvan, our Corporate Counsel. We have got Bruce and Fred and Pete from the Finance and Accounting Department. So, we have got a full crew here. We will all be available to participate in the Q&A 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 conference 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 1866-454-2100 with an access code of 7461 and in addition to the conference call you may access the conference through the internet or access the call via net conferencing, log on to our website at www.gci.com and follow the instructions. Webcast will be available for replay for the next two weeks.

I will now read a cautionary statement about forward-looking comments and then we will get started. Some of the statements made by GCI in its 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. The presentation format will be a little different this quarter as this is our first quarter reporting under our new organization. As you are probably aware, we reorganized the company from the historical business lines of long distance, local, internet access, and cable and entertainment into new customer focus lines including consumer, commercial, network access and managed broadband. The reorganization was necessary to facilitate our continued evolution to a customer focused fully integrated service provider.

Our budgeting, accounting, management and reporting have all been realigned to support our new structure. Our historical financial reports will have to be recast to be consistent with our new format. The first quarter results were pretty much in line with our guidance. First quarter revenues totaled 112.8 million representing an increase of 5.9% over the same quarter of last year. EBITDA excluding the impact of the new accounting and treatment for non-cash share based compensation expense increased by 2.6 million or 7.6% over the prior year. On a sequential basis, revenues were up slightly and EBITDA was up almost 4.8% excluding the effect of the claims settlement recorded during the fourth quarter of last year.

Net income and earnings per share were down slightly due to the new accounting treatment for stock options and increased in deprecation expense and hopefully a temporary uptick in our effective tax rate all in non-cash items. All of our new business units except for managed broadband experienced year-over-year increases in revenues and all but commercial experienced increases in sequential revenues.

Consumer. The new consumer segment experienced a 6.1% increase in revenues over the prior year and 1.7% on a sequential basis. Video, data and wireless revenue increases more than offset a decrease in voice revenues on both a sequential and year-over-year basis. The gross margin percentage was mostly unchanged from the year ago quarter and was actually up 189 basis points after factoring out the effect of the claim settlement. All of the business line metrics are included in the schedule attached to the press release so I'm not going to repeat them all here. But a few of the more significant items for the consumer segment for the quarter included an increase of 3100 cable modems, 2800 local service lines converted to our own facilities and additional 3700 HD/DVR converter boxes deployed.

Consumer EBITDA excluding share based compensation expense totaled 8.34 million for the quarter. This compared to 8 million a year ago and 6.8 million adjusted for the settlement in the prior quarter. The increase compared to a year ago was in spite of an increase in bad debt expense resulting from depletion of the remaining MCI credit during the current quarter. The sequential improvement was due primarily due to an increase in revenues and margins percentage during the current quarter. We raised the bar of bit in terms of customer service during the quarter, our new IT systems made it possible to cross train a majority of our call center employees across several products and services thereby reducing the need to transfer calls to product specialists and significantly improving lead times. In addition, we expanded our field service hours such that visits to customer premises can be accomplished in the evening hours and on Saturdays and Sundays making it much more convenient for our customers to obtain what they need. We received a lot of favorable feedback from our customers regarding these improvements and we have been able to reduce the average time a customer has to wait for service or repair.

Commercial. First quarter revenues were up 3% over the same quarter of 2005 and were down slightly on a sequential basis. Similar to the consumer segment, video, data and wireless revenue growth more than compensated for a decline in voice revenues as compared to the prior year. The decline in revenues on a sequential basis was due primarily to a decrease in managed service revenues during the current quarter. The commercial gross margin percentage expanded 500 basis points compared to the prior year quarter and 264 basis points sequentially excluding the effect of the fourth quarter settlement.

Selling, general and administrative costs as a percentage of revenues during the first quarter were down more that 340 basis points compared to the first quarter of last year and sequentially and are hopefully beginning to reflect certain deficiencies introduced as a result of our reorganization. Commercial EBITDA was up more than 20% as compared to the first quarter of last year and was up 8.7% sequentially excluding the effect of the settlement. Notable commercial metrics include an increase since the first of year of 400 cable modem subscribers, 1000 commercial video subscribers and additional 400 local service lines moved to our own facilities. We have historically reported the number of long distance customers that have made calls during the last month of each quarter. Because we have a large number of customers that are now on bundled plans that pay us a plan fee and may or may not actually make a long distance call, we are going to begin reporting the number of customers that we bill irrespective of whether or not they actually made a long distance call. We also plan to break this information out between consumer and commercial segments. Unfortunately this information was not available on time for the call but we should hopefully be able to report this information next quarter. We added a combined 4000 commercial and consumer wireless subscribers during the quarter and at quarter's end, we had a total of 20,100 subscribers. We hope to be able to differentiate between numbers of commercial and consumer wireless subscribers in the future as well.

Network access services. The network access business had a strong quarter. Revenues were up more than 10.7% over the prior year and were up 1.5% sequentially. The gross margin percentage was down slightly versus the prior year quarter and approximately 3.3% sequentially due to anticipated scheduled rate reductions. We carried 288 million network access minutes during the first quarter representing an increase of more than 27% over the prior year quarter. Network access minutes were up more than 5% sequentially. EBITDA increased by approximately 1.8 million or 9.8% over the prior year quarter and decreased by almost a $1 million or 4.5% on a sequential basis adjusted for the fourth quarter settlement. Our average rate per minute for all of our long distance traffic totaled 9.02 cents per minute compared to 9.7 cents per minute a year ago and 9.28 cents per minute in the prior quarter.

Managed broadband. Managed broadband revenues were down 8.9% compared to the year ago quarter but were up almost 3% on a sequential basis. Revenues for the first quarter totaled 6.2 million as compared to 6.8 million in the same quarter of the prior year, and just over 6 million in the prior quarter. Quarterly EBITDA was down 729,000, as compared to the year ago quarter but was up approximately 546,000 on a sequential basis, largely due to a reduction in bad debt expense. As I mentioned last quarter, we experienced some rate compression as we went through this year's renewal cycle, although we were very successful in maintaining our customer base.

Other items of interest, legal and regulatory. Really not much new to report on the legal and regulatory front. Our efforts have been focused primarily on negotiating interconnection agreements with the incumbent carriers in the service areas in which we were recently given authority to provide service.

MCI credit. During the first quarter we used the last 372,000 of our reaming credit with MCI. The credit is now depleted.

Stock repurchase program. Our stock re-purchase program continued during the first quarter and upto the blackout period. Year-to-date we have acquired slightly more than 893,000 shares at an average cost of approximately $11.36 per share or a total of 10.149 million. Of that amount, 6.6 million was spent after March 31st and is therefore not reflected in the first quarter financial statements. Subsequent to the date, the Board authorized stock option exercise proceeds to be utilized for share repurchases. We realized approximately 3 million in option proceeds to be dedicated to that purpose. We are currently cleared to purchase upto an additional $12.85 million worth of shares through midyear plus any additional proceeds we may realize from option exercises subject to market conditions, available resources and continued financial performance by the company. In the event we don't purchase the full amount authorized, it is likely that the remaining funds will be carried forward for purchases in subsequent periods.

Guidance and economic prospects. Last quarter, I mentioned that we expected that we will generate first quarter revenues in the range of 112 million to 114 million and EBITDA in excess of 37 million. We generated EBITDA of 37.1 million roughly equal to guidance and revenues of 112.8 million, which approached the middle of the range. We are pretty bullish on the Alaska economy at the moment and we feel the same way about the prospects for our business. Our guidance for the full years remains unchanged at 450 million to 460 million in revenues and 150 million to 154 million in EBITDA. We expect the second quarter results to surpass those of the first quarter both in terms of cash flow and revenues. We expect the first quarter to be our weakest quarter of the year.

Liquidity and capital expenditures. We ended the first quarter with more than 43 million in cash and 49.5 million available to draw under our revolver if we needed. Our senior facility will require only 1.6 million in principal amortization during 2006. We don't currently expect to draw down our facility during 2006 as we expect to generate free cash flow during the year most of which will likely be used to continue our stock repurchase program. Depending on timing, we may use the facility to fund our pending purchase of an interest in Alaska Digital which we have discussed previously.

We invested approximately 13.7 million in capital expenditures, net of a new $1.2 million retail store recorded under capital lease during the first quarter. Investments were made in the following areas. For our business lines, primarily cable modems and set-top boxes 3.9 million, for IT projects 3.6 million, for support of our network 3.8 million, for product management including local services initiatives 1.8 million, and for administrative support approximately 600,000. Capital expenditures requirements beyond approximately 25 million per year in maintenance capital are largely success driven and are a function of the opportunities we develop in the market. Notwithstanding the modest run rate we experienced during the first quarter, our expected capital expenditures requirements for all of 2006 remain unchanged from last quarter's guidance at approximately 85 million. In order to accomplish our free cash generation goals for the year, we will need to hold capital expenditures to approximately that level.

To recap our cash sources and uses for the quarter on a simplified basis, we generated approximately 37.1 million in EBITDA, out of that we spent 13.7 million in capital expenditures, 15.2 million in cash interest expense including our semiannual bond interest payment, and approximately 3.5 million in stock repurchases leaving a 4.7 million in cash available for other items. The interest rate on approximately 318 million of our 477 million in debt is fixed. Our cash interest expense at current rates on our existing facilities is now running at approximately 34.3 million per year compared to the last two quarter's annualized cash flow of approximately 145 million excluding the claim settlement in the fourth quarter. Our cash interest coverage is approximately 4.2 times and our leverage at quarter's end on net debt is just under three times cash flow. On gross debt our leverage is 3.29 times.

In conclusion, we met our revenue and cash flow guidance for the first quarter and we are optimistic about meeting our goals for the remainder of the year. We are looking forward to realizing the benefits of our efforts to re-organize the company and the investments that we made in our new IT systems. We will now be happy to answer your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question and answer session. [Operator Instructions]. The first question comes from Ian Zefano [ph], you may ask your question, please state your company name.

<Q>: Hi, Seacore [ph] gentlemen. A couple of questions here, as far as the provisioning of the DLPS, you're looking at a pretty big acceleration from the first quarter and I imagine that's because we are getting to the warmer season and why is it only 3200 lines in the past quarter because of the seasonality or is it more from a equipment standpoint?

<A – Ron Duncan>: This is Ron Duncan, Ian. The first quarter numbers really have to do with the amount of network that's available to convert. We're close to tap out on available customers that can be converted on the already upgraded network. That should change here in the next couple of weeks as we started to bring some more segments or notes of the plan online for conversion since we have started the construction season up here in the last couple of weeks. So the pace should accelerate during the reminder of the year, we have changed the technology around the little bit too now so that a number of our conversions we need to schedule in premise visits and that has slowed down the conversion rate a little bit. We are still learning how to manage that. The goal for the year remains 20,000 and it is quite frankly an aggressive goal; we do have to pick up the pace to hit that between now and the end of the year, but we are going to continue to target that and I expect to see the pace sort of steadily increase over the year and by the end of this year almost all of the Anchorage plant should be upgraded so almost all of the Anchorage customers should be accessible for the conversion.

<Q>: Okay, and then I guess the balance of the customers will be converted in '07?

<A>: The balance of any Anchorage customers would be converted in '07, I believe the plan calls for us to start Juno [ph] conversions later this year and Fairbanks conversions which started in '07 and then the new markets which we are rolling out which start this year. And a couple of the new markets will turn up initially on GCI facilities. We won't be using the rented facilities of the incumbent by and large when we roll out in the new markets, and those roll outs will start in the third quarter of this year.

<Q>: Okay, and on the share repurchase program, I know we just bought 13 million in the second quarter or 12.9, are we going to probably see something like26 in the back half of the year, or is it going to drop down to you know, $10 million per quarter range in third, fourth quarter?

<A>: Well, the authorization that we have today was that we have about five million per quarter to spend. We did authorize an additional 10 million extra in the first half of the year. So that would give us 30 million for the full year. To the extent that we haven't spent the full extra ten in the first half of the year, that would be carried forward into next year. But the goal, Ian, is around 30 for the full year at least currently. And of course that depends on you know, market conditions and so on, and our continued financial performance and so on as well, Ian.

<Q>: Okay, and there is no intention to may be buying more shares that you could internally generate from a free cash flow standpoint?

<A>: I would say currently, no, there's no plan to do that. But you know, we wouldn't rule anything out going forward depending on what the market situation looks like. It certainly is something we could look at down the road. But there's no current plans to increase leverage or anything like that, to bring back any stock.

<Q>: Okay, great, thank you.

Operator: Thanks, your next question comes from Anthony Carmen. You may ask your question and please state your company name.

<Q – Anthony Carmen>: It is Deutsche Bank, thank you very much. A couple of questions. First, I'm trying to sort of rectify or may be just draw a parallel between the comments of your competitor ACS on their call. They kind of indicated that they saw may be a slow down in the pace of conversions over to your cable telephony platform in terms of I guess [indiscernible] that were coming out of service on their end and going to DLPS on your end. But I was wondering if you could sort of talk about the experience at least from your end, was that kind of a measured slow down to sort of build the pace for the rest of the year, or were you not seeing, you know, some of the indications that they might have been giving on their call?

<A>: I think it goes back to the same answer that I gave Ian that we were running out of available homes to convert based on where plant has been upgraded. So, yeah, the pace slowed down in the first quarter. I think we had 8- 900 more than they thought the number was and I don't know where they get their numbers. But we're pretty convinced that we really converted our numbers. And that does represent a loop the DLPS represent a loops to DLPS conversion of 3,400 for the, 3,200, excuse me, for the first quarter. And I would expect the pace to come up somewhat over the remainder of the year. Certainly it has to if we are going to get our goal. It depends on a combination of factors, the most significant of which is when we turn over nodes at the plant and declare them to be telephony ready so that we can commence conversions in those nodes and then how long the node can – how long the individual customer conversions actually take.

<Q – Anthony Carmen>: What has the customer experience been thus far? I guess, we now have enough quarters that may be the sample size is significant enough. Have you seen much attrition that goes back to the lag after the first 30 or 60 days, or what has the experience been thus far with DLPS?

<A>: We're very satisfied with the experience. Last time we looked we had lower churn on our own lines than we have on our competitors' lines, and we have better performance statistics on our own lines. The number of customers who are out for more than 20 or more hours is fewer on our lines than it is on our competitors' lines. Part of that's because we have seven day repair and maintenance. And you can't get repair and maintenance from the other guy after 5 o'clock on Friday.

<Q – Anthony Carmen>: Okay. Two more questions, if you'll allow me. On wireless, don't hear much about it from you guys yet. Sounds like it's not a significant enough – sort of meaningful indicator. You've placed a little bit of a hedge bet, you know, with Alaska DigiTel. But that would seem like at best, kind of a small hedge against at some point, having downright ownership of the GSM asset up there. I mean, what really is, you know, kind of the long-term plan or the long-term viewpoint? And is wireless – is the wireless product that you're reselling currently through Dobson enough to kind of give you enough for the bundle, or give you some of competitive push-back against ACS?

<A>: Last part of the question first. We believe that the products that are currently in the bundle are sufficient to maintain our position in the marketplace, and give us adequate competitive tools to deal with the competitors' bundling issues and the product offerings they might make in the marketplace. That said, the margin on the wireless products because they're resold through the Dobson relationship is not what we'd like it to be. We are not generating the EBITDA from that product that we do on the products that we own in our own facilities. And we very much would like to own a wireless facility. We'd very much like to own the Dobson wireless facility In Alaska. We've been quite candid about that. There's nothing happening on that front right now. I've said in the past, I think it's more likely that that event would happen at such time that there was a transition in Dobson's overall operations, but really nothing has changed on that front in the last six to nine months.

<Q – **Anthony Carmen**>: Okay. Just finally, in terms of the stock and the stock repurchases, the stocks had a tremendous move, you know, touched a 52-week high today, off a little bit right now. Obviously the valuation on the stock has moved a lot. It would seem like you're more aggressively buying back stock now than you were obviously with the authorization or the approval for the higher buyback amounts. You know, how do you marry future share repurchases against, you know, kind of the current valuation? And would you, at some point, consider just perhaps putting the cash back on the balance sheet to store away for a different day in terms of redeploying in CapEx project or an acquisition or, you know, how do you kind of marry the use of the cash here for share buybacks?

<A – **Ronald Duncan**>: I think we've said in the past that share backs are a constantly reevaluated situation, particularly as the price changes. We've made it clear that our intention in share buybacks is to reduce the total number of shares outstanding, not to spike the stock price. And we try diligently not to be the price-setter as a result of our buybacks. That said, as the price drifts up, obviously, we're going to pay more for shares. If we were to conclude that the company was highly overvalued on a relative basis to our alternative investments in our peer groups, than we'd probably have to give reconsideration to what we're doing. I think we're very happy with the increase in the stock price over the last six months. We think it reflects strong fundamental performance of the company. But we also think it reflects market trends. And if you look at our peer group, particularly the cable peer group, there's been significant improvement and increase in the multiples there, in the last six months, and our multiples still materially trails companies that we continue to view as our peer group.

So, we don't think that we're at a point yet where the buybacks are inappropriate. The accelerating pace to the buybacks really has to do with the cash-flow generation from the company. The 10 million incremental buyback that was authorized in the first half of this year reflected the fact that we closed last year out of $45 million of cash on the balance sheet. As Mr. Lowber noted, we're less than three times all in leverage on a net basis, no reason really to reduce that leverage any further. If anything, we are probably under-levered. So I think the course is to continue to cautiously evaluate and try and buy in the market in a manner that doesn't spike the price. And we will be constantly looking at the cash balance and the available supply of shares, and buying when we think we can get a decent price.

<Q – **Anthony Carmen**>: Okay. Thanks, Ron.

<A – **Ronald Duncan**>: Sure.

Operator: Thanks. And your next question comes from Ari Moses. You may ask your qusetion, and please state your company name.

<Q – **Ari Moses**>: Hi. Kaufman Brothers. Good afternoon. A couple of questions, first for John. In looking at the income statement, you started out with a comment about temporary up kick in the effective tax rate, and hopefully it's temporary. What drove that tax rate higher this quarter, and why – you know, what's going to happen to it through out the year that, you know, is it going to stay in this range? Hopefully they are, you know. How should we be looking at that? And second, in terms of the SG&A expenses, I would say there was an up kick there in the quarter, looks like it was in the consumer group. And I know, in the press release you've stated, increased medical claims and IT spending. Just wondering what exactly led to that up kick? And was that really kind of some one-time expenses? Or is that going to be the run rate going forward? And then I have a follow-up after.

<A – **John Lowber**>: All right. Let's see. What was the first one, again?

<Q – **Ari Moses**>: Tax rate.

<A – **John Lowber**>: Tax rate. Yeah. The – our tax provision is exceedingly complex, and from time to time we find adjustments that need to be made to it. And that was certainly the case in Q1. There were some adjustments, I think, we had to make to timing on what was it Fred, vacation [indiscernible] or something like that?

<A>: [indiscernible]

<A>: So we had a fix we had to make there. Also as we have a smaller net income item, the percentage of non-deductible items gets to be a little bit larger. Having said all that, then I think the rate came in at slightly over 48 percent. But that adjustment, hopefully, was a one-timer that we're not going to see again this year. And you know, as we grow the net income, hopefully the rate will shrink. Right now, I think we're targeting somewhere between 43 and 45% for the effective rate for the full year. So hopefully that's a one-time aberration. And I guess the other question had to do with –

<A>: I would like to just point out on the tax rate too, Ari, that while it's important for the booked net income, as you'll see when we file the K, we're sitting on a 160 million in NOLs. At the current rate, we're in the four to five year timeframe before we'll be any sort of a tax cash payer. So, quarterly variations in the book tax rate have virtually no impact on the economic performance of the company. So I realize you want to track the net income. But from the perspective of the overall economic value of the company we're well away from the period in which those would have any economic impact on us.

<Q – **Ari Moses**>: Understood. Then, in terms of the SG&A?

<A>: SG&A, what periods are you looking at, Ari, particularly

<Q – **Ari Moses**>: This quarter.

<A>: Compared to what? The prior year or prior quarter

<Q – **Ari Moses**>: Compared to the prior – actually if I'm looking prior year and prior quarter percentages were the same. It wasn't you stick up, I guess if I look at the, I think it was the consumer segment, it looks like it was a notable jump, and maybe that's off the fourth quarter. The fourth quarter was unusually low. So, maybe it was a fourth quarter impact, not a first quarter impact, just wanted to make sure I understood it.

<A>: Yeah. I guess overall Ari, if you look at SG&A, and I took out of the fourth quarter, I backed out the effect of the claim settlement and so on. And, on a total company basis the SG&A went from like 34.83% in Q4 to 34.65% in the first quarter. So, we had a slight decrease, and that's factoring out as well the share-based compensation expense. You need to do the math on that too. So, to pull those out, it actually decreased slightly. In spite of the fact that our health claims were a lot more than we are expecting to be in Q1, and we are hoping that's an aberration. But, we think going forward, you know, we are going to start bringing out a fair amount of efficiencies from our new IT systems in the new reorganization, I think we are only scratching the surface on those fronts. And, in terms of the SG&A as a percentage of revenues we should see that drop as the year progresses.

<Q – **Ari Moses**>: Okay, great. On the data business you look at – I think it was the commercial segment, there was a step down in data revenues from fourth quarter to first.

<A>: Right.

<Q – **Ari Moses**>: What drove that, and you know where – it was some type – was there any weakness in the data segment or is that the one time step down?

<A>: That result I agree from two major pieces. One was, in the fourth quarter we got a performance bonus from one of our large customers because of the quality of the service we provided them during the year. I think the contract has a provision in it to do if our availabilities meets or exceeds a certain threshold we get rewarded for that, and we enjoy it, I think close to half a million dollar bonus there. And then there was a – in the fourth quarter also, in the data category—it was actually the managed services, but we performed a one-time project for one of our large customers that generated about a half a million bucks in revenues during that quarter. That wasn't recurring in Q1. So, it's really no indication of any deterioration in the fundamentals of that business unit.

<Q – **Ari Moses**>: Okay, okay. And last one, back on the stock rate purchase, I think I heard you say that of the 10 million spent or highlighted in the press release about 6.6 million of it was spent after the quarter. Was that – did I hear that correctly?

<A>: That is correct.

<Q – **Ari Moses**>: So, you know, back to Ron's comments was the reason for the timing of that and bulk of it, dollars being spent in that quarter just because of cash flow, you had the cash coming in, so, you are spending it or because obviously, twice as much was repurchased in two or three weeks following the quarter as in the three months during the quarter. Was there any specific reason for that timing other than cash flow timing?

<A>: Ari, I can't get away with anything with you. But...

<Q – **Ari Moses**>: Sorry about that.

<A>: These things are never as simple as they might appear. I actually negotiated the acquisition of the large block of class B shares from the state of one of our former shareholders, and I cut the deal I think some time in March but it didn't close until sometime in April. And that was all in I think 5 million or the 6 million dollar transaction. So..

<Q – **Ari Moses**>: Got it.

<A>: It wasn't any, you know, any conscious acceleration or deceleration of the purchase or anything like that, it was just share and equity base.

<A>: There is also a black out window effect just because of the 10-K, we are blacked out of the market for a longer in the first quarter than we are in most quarters of the year because of the timing and the delay in filing the K, and when we can't buy anymore on the open market. So, well it doesn't affect private purchases, open market purchases are more problematic due to narrow windows.

<Q – **Ari Moses**>: Got it. All right, great guys thanks.

<A>: Great Ari.

Operator: Thank you next comes from William Burt [ph]. You may ask your question and please state your company name.

<Q>: Ferris, Baker Watts. Ron, the managed broadband was down year-over-year, and is mentioned that there is both the rate change and a fewer customers. Is there any change in the competitive environment in that space?

<A>: No, there is a significant change in the competitive environment. It has been quite intense there for a while, we had to keep advancing the technological front in order to maintain the

customer base and the volume of revenues. The customers are clearly getting a very good deal and they are getting increased volume in each quarter and each year for essentially the same revenue amount. And, we probably didn't have at large technology jump last year as we had it prior years. So, we were unable to sustain the full level of revenues. And, I think we lost one or two customers, but we won back some other customers in the first quarter of this year. It's an intensely competitive business out there with some of our competitors dumping large amounts of capacity in the marketplace. But, I don't see it as a major warning issue. I think we are comfortable with that business. It's no longer the dynamic growth business that it once was because we have captured probably 80% of the market. But, I suspect will sustain on a position and largely sustain the revenue base maybe with some slight further decreases.

<Q>: Great, thank you.

Operator: Thank you. Our next question comes from Jonathan Schildkraut [ph], you may ask your question and please state your company name.

<Q>: Jeffries and Company. Thank you for taking the question. Couple of housekeeping items and then a couple of strategic items. In terms of the MCI credit and stock-based comp numbers, where are those coming out of – as I look to the P&L items?

<A>: The share base comp is in really two pieces. One piece of it just shows up in I think the operating cost SG&A area, and that number is I think roughly – I think $680,000 or something like that. Yeah, pre-tax. And, then there is another piece of it, it shows up down below the line in the form of a cumulative effect accounting change for – then option that got treated using the liability method accounting which means we had to value it at fair value. And that accounted for, I think, roughly 1.1 million gross and then net of tax it was around 680 or another was it pretty close to that number. Yeah, it shows up right on the face of the income statement. So, the share-based comp shows up in those two areas. What was the other item you were looking at?

<Q>: Well, I was wondering where the MCI credit was?

<A>: That's just a reduction in bad debts, and the number was around 372 for the quarter.

<Q>: Right. And Bill, which group did that come out of, in terms of separate groups that you have there, was it spread across?

<A>: You remember where that might [ph] Fred.

<A>: No. This is consumer.

<A>: Fred thinks that was reflected in the consumer area.

<Q>: Okay, great. Strategically a couple of questions. You know, the cable modems had a very nice jump in the quarter, penetration of basic saw this is near 60% which is as high as any company I know. I am wondering if, you know, 100% of your cable subscribers can receive your high-speed data product, and how high can that penetration go over the longer term? The second question I have has to do with DLPS. You know, you mentioned earlier that some new market launches would go directly on to the DLPS platform, and I am wondering if those access lines are in your 20,000 DLPS additions over the course of the year, it's in that guidance or is it separate from that guidance?

<A>: Second question first, because it's easy to remember. The 20,000 line target includes our goal, and as I mentioned prior, we think is an aggressive goal for total DLPSs including the new markets this year. Some of the challenge there is how quickly we can bring the new markets on, we've had some significant delays on the final steps of the regulatory front to the number of places

and getting up and locate it up and launch. We are now looking at probably in the third quarter for turning up two new markets this year and the bulk of the new markets turning up next year. But those are in the 20,000 DLPS account for this year. And then, cable modems I suppose the logical upper limit is 100 percent, and cables below that's not even true because we have some numbers to take cable modem and don't take the video the uptake in sales relates to some revamping of the cable modem product line in the last half, particularly in the last quarter of last year that has created some very attractive new packages for customers and has led to both an increase in the absolute number of modems and a significant increase in the number of customers stepping up to higher value, higher priced modem products, which is why you also see the average revenue per modem going back up. We said when we launched our low priced and free modem program, I guess almost two years ago, that we expected to see a temporary downtick in average price per modem as we got people used to using the always on benefits of the cable modem and then that we would entice them to spend more over time by demonstrating to them the value that could be obtained with higher speed and different quality connections, I think that plan is working exceedingly well. We continue to develop new products that enhance the value of high-speed connectivity for our customers, and I think you're seeing a reflection of that both in the modem penetration and the modem revenue numbers.

<Q>: Excellent. In the past the company has given some color on the impact of bundling the high-speed data or having phones on multiple services on churn, clearly bundling drives up here your revenue per customer, but I was wondering if the company can give some up-stated color on the impact to churn that it's seeing from the bundling efforts.

<A>: I don't know the most current churn numbers, we don't see anything that causes us to believe our original assessment is wrong and we believe very strongly that we see very significant churn reduction from bundled customers that people who have the full bundle are happy campers who buy and large tend to stay with us, it's one of the reasons we are intently focused on being able to drive out local in the other markets, so that we can provide the complete bundles, which people over to the more value priced services and both increased the revenue, reduced the churn. We are still very committed to bundling, bundling is part of the reason that we did the re organization because there really isn't as much product differentiation as used to be people are buying the bundle. It's part of the reason, I think you characterized in your note this morning that there was some confusion or some difficulty in reading your way through the new numbers. Part of the results in the new numbers are that the different product, the single product statistics are disappearing as people buy the bundle for a fixed price and we are very, very happy with the overall mix there.

<Q>: Okay. It's only a first time confusion just by looking at the number, but...

<A>: I didn't mind to know that was impressive, how early it showed up in my mailbox. But, part of the reason is that, a lot of the numbers that we used to have and John referred to with the long business number as well, they are either disappearing or they are not meaningful. Because people don't buy things [indiscernible] card any more they are buying a combination of services and using different ones at different value levels.

<Q>: Exactly. Thank you very much for your time.

<A>: Sure.

<A>: He had one other question, I think that we didn't answer, specifically and that was the number of the cable subs that we are able to get the cable modem. And I think that percentage...

<A>: That is a 100 percent.

<Q>: 99 – I think...