

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

(X) ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1999

Or

( ) TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File No. 0-15279

GENERAL COMMUNICATION, INC.

(Exact name of registrant as specified in its charter)

ALASKA  
(State or other jurisdiction of  
incorporation or organization)

92-0072737  
(I.R.S. Employer  
Identification No.)

2550 Denali Street Suite 1000 Anchorage, Alaska  
(Address of principal executive offices)

99503  
(Zip Code)

Registrant's telephone number, including area code: (907) 265-5600

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Class A common stock	Class B common stock
(Title of class)	(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes X No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the average bid and asked prices of such stock as of the close of trading on February 28, 2000 was approximately \$215,690,967.

The number of shares outstanding of the registrant's common stock as of February 29, 2000, was:

Class A common stock - 47,395,894 shares; and  
Class B common stock - 3,909,014 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's definitive Proxy Statement to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, in connection with the Annual Meeting of Stockholders of the registrant to be held on June 8, 2000 are incorporated by reference into Part III of this report.

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This Annual Report on Form 10-K is for the year ending December 31, 1999. This Annual Report modifies and supersedes documents filed prior to this Annual Report. The SEC allows us to "incorporate by reference" information that we file with them, which means that we can disclose important information to you by referring you directly to those documents. Information incorporated by reference is considered to be part of this Annual Report. In addition, information that we file with the SEC in the future will automatically update and supersede information contained in this Annual Report.

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GLOSSARY

ACCESS CHARGES -- Expenses incurred by an IXC and paid to LECs for accessing the local networks of the LECs in order to originate and terminate long-distance calls and provide the customer connection for private line services.

ALASKA UNITED -- Alaska United Fiber System Partnership -- a Alaska partnership

wholly owned by The Company. Alaska United was organized to construct and operate a new fiber optic cable connecting various locations in Alaska and the lower 49 states and foreign countries through Seattle, Washington.

ATM -- Asynchronous Transfer Mode -- An international ISDN high-speed, high-volume, packet switching transmission protocol standard. ATM uses short, uniform, 53-byte cells to divide data into efficient, manageable packets for very fast switching through a high-performance communications network. The 53-byte cells contain 5-byte destination address headers and 48 data bytes. ATM is the first packet-switched technology designed from the ground up to support integrated voice, video, and data communication applications. It is well suited to high-speed WAN transmission bursts. ATM currently accommodates transmission speeds from 64 kbps to 622 mbps. ATM may support gigabit speeds in the future.

BASIC SERVICE -- The basic service tier includes, at a minimum, all signals of domestic television broadcast stations provided to any subscriber, any public, educational, and governmental programming required by the franchise to be carried on the basic tier, and any additional video programming service added to the basic tier by the cable operator.

BOC -- BELL SYSTEM OPERATING COMPANY -- A LEC owned by any of the remaining five Regional Bell Operating Companies, which are holding companies established following the AT&T Divestiture Decree to serve as parent companies for the BOCs.

BACKBONE -- A centralized high-speed network that interconnects smaller, independent networks.

BANDWIDTH -- The number of bits of information that can move through a communications medium in a given amount of time.

BRI -- Basic Rate Interface -- An ISDN offering that allows two 64 kbps "B" channels and one 16 kbps "D" channel to be carried over one typical single pair of copper wires. This is the type of service that would be used to connect a small branch or home office to a remote network. Through the use of Bonding (bandwidth on Demand) the two 64 kbps channels can be combined to create more bandwidth as it becomes necessary. For data services such as Internet access, these channels can be bonded together to provide 2B+D transmission at a rate of 128 kbps. New technology increases the bandwidth of ISDN BRI connections to 230 kbps.

BROADBAND -- A high-capacity communications circuit/path, usually implying a speed greater than 1.544 mbps.

CAP -- Competitive Access Provider -- A company that provides its customers with an alternative to the LEC for local transport of private line and special access telecommunications services.

CENTRAL OFFICES -- The switching centers or central switching facilities of the LECs.

CLEC -- Competitive Local Exchange Carrier. -- A company that provides its customers with an alternative to the ILEC for local transport of telecommunications services, as allowed under the 1996 Telecom Act.

CO-CARRIER STATUS -- A regulatory scheme under which the incumbent LEC is required to integrate new, competing providers of local exchange service, into the systems of traffic exchange, inter-carrier compensation, and other inter-carrier relationships that already exist among LECs in most jurisdictions.

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COLLOCATION -- The ability of a CAP to connect its network to the LEC's central offices. Physical collocation occurs when a CAP places its network connection equipment inside the LEC's central offices. Virtual collocation is an alternative to physical collocation pursuant to which the LEC permits a CAP to connect its network to the LEC's central offices on comparable terms, even though the CAP's network connection equipment is not physically located inside the central offices.

THE COMPANY -- GCI and its direct and indirect subsidiaries, also referred to as "we," "us" and "our."

COMPRESSION / DECOMPRESSION -- A method of encoding/decoding signals that allows transmission (or storage) of more information than the media would otherwise be able to support. Both compression and decompression require processing capacity, but with many products, the time is not noticeable.

CPS -- a Cable Programming Service -- (also known as CPST, Cable Programming Service Tier). CPS includes any video programming provided over a cable system, regardless of service tier, including installation or rental of equipment used for the receipt of such video programming, other than (1) video programming carried on the basic service tier, (2) video programming offered on a pay-per-channel or pay-per-programming basis, or (3) a combination of multiple channels of pay-per-channel or pay-per-programming basis so long as the combined

service consists of commonly-identified video programming and is not bundled with any regulated tier of service.

DAMA -- Demand Assigned Multiple Access -- The Company's digital satellite earth station technology that allow calls to be made between remote villages using only one satellite hop thereby reducing satellite delay and capacity requirements while improving quality.

DARK FIBER -- An inactive fiber-optic strand without electronics or optronics. Dark fiber is not connected to transmitters, receivers and regenerators.

DBS -- Direct Broadcast Satellite -- Subscription television service obtained from satellite transmissions using frequency bands that are internationally allocated to the broadcast satellite services. Direct-to-home service such as DBS has its origins in the large direct-to-home satellite antennas that were first introduced in the 1970's for the reception of video programming transmitted via satellite. Because these first-generation direct-to-home satellites operated in the C-band frequencies at low power, direct-to-home satellite antennas, or dishes, as they are also known, generally needed to be seven to ten feet in diameter in order to receive the signals being transmitted. More recently, licensees have been using the Ku and extended Ku-bands to provide direct-to-home services enabling subscribers to use a receiving home satellite dish less than one meter in diameter.

DS-3 -- A data communications circuit that is equivalent to 28 multiplexed T-1 channels capable of transmitting data at 44.736 mbps (sometimes called a T-3).

DEDICATED -- Telecommunications lines dedicated or reserved for use by particular customers.

DIGITAL -- A method of storing, processing and transmitting information through the use of distinct electronic or optical pulses that represent the binary digits 0 and 1. Digital transmission and switching technologies employ a sequence of these pulses to represent information as opposed to the continuously variable analog signal. The precise digital numbers minimize distortion (such as graininess or snow in the case of video transmission, or static or other background distortion in the case of audio transmission).

DLC -- Digital Loop Carrier -- A digital transmission system designed for subscriber loop plant. Multiplexes a plurality of circuits onto very few wires or onto a single fiber pair.

EQUAL ACCESS -- Connection provided by a LEC permitting a customer to be automatically connected to the IXC of the customer's choice when the customer dials "1". Also refers to a generic concept under which the BOCs must provide access services to AT&T's competitors that are equivalent to those provided to AT&T.

FCC -- Federal Communications Commission -- A federal regulatory body empowered to establish and enforce rules and regulations governing public utility companies and others, such as the Company.

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FRAME RELAY -- A wideband (64 kilobits per second to 1.544 mbps) packet-based data interface standard that transmits bursts of data over WANs. Frame-relay packets vary in length from 7 to 1024 bytes. Data oriented, it is generally not used for voice or video.

FTC -- Federal Trade Commission -- A federal regulatory body empowered to establish and enforce rules and regulations governing companies involved in trade and commerce.

GCC -- GCI Communication Corp., an Alaska corporation and a wholly owned subsidiary of Holdings.

GCI -- General Communication, Inc., an Alaska corporation and the Registrant.

GCI, Inc. -- a wholly owned subsidiary of GCI, an Alaska corporation and issuer of \$180 million of publicly traded bonds.

HOLDINGS -- a wholly owned subsidiary of GCI, Inc., an Alaska corporation and party to The Company's Senior Holdings Loan.

HSD -- Home Satellite Dish - see DBS.

INBOUND "800" or "888" Service -- A service that assesses long-distance telephone charges to the called party.

ILEC -- Incumbent Local Exchange Carrier -- with respect to an area, the LEC that -- (A) on the date of enactment of the Telecommunications Act of 1996, provided telephone exchange service in such area; and (B) (i) on such date of enactment, was deemed to be a member of the exchange carrier association pursuant to section 69.601(b) of the FCC's regulations (47 C.F.R. 69.601(b)); or

(ii) is a person or entity that, on or after such date of enactment, became a successor or assign of a member described in clause (i).

INTEREXCHANGE -- Communication between two different LATAs.

ISDN -- Integrated Services Digital Network -- A set of standards for transmission of simultaneous voice, data and video information over fewer channels than would otherwise be needed, through the use of out-of-band signalling. The most common ISDN system provides one data and two voice circuits over a traditional copper wire pair, but can represent as many as 30 channels. Broadband ISDN extends the ISDN capabilities to services in the Gigabit range. (See BRI and PRI)

ISP -- Internet Service Provider -- a company providing retail and/or wholesale Internet services.

INTERNET -- A global collection of interconnected computer networks which use TCP/IP, a common communications protocol.

IXC -- Interexchange Carrier -- A long-distance carrier providing services between local exchanges.

LAN -- Local Area Network -- The interconnection of computers for the purpose of sharing files, programs and various devices such as printers and high-speed modems. LANs may include dedicated computers or file servers that provide a centralized source of shared files and programs.

LATA -- Local Access And Transport Area -- The approximately 200 geographic areas defined pursuant to the AT&T Divestiture Decree. The BOCs are generally prohibited from providing long-distance service between the LATA in which they provide local exchange services, and any other LATA.

LEC -- Local Exchange Carrier -- A company providing local telephone services. Each BOC is a LEC.

LINE COSTS -- Primarily includes the sum of access charges and transport charges.

LMDS -- Local Multipoint Distribution System -- LMDS uses microwave signals (millimeterwave signals) in the 28 GHz spectrum to transmit voice, video, and data signals within small cells 3-10 miles in diame-

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ter. LMDS allows license holders to control up to 1.3 GHz of wireless spectrum in the 28 GHz Ka-band. The 1.3 GHz can be used to carry digital data at speeds in excess of one gigabit per second. LMDS uses a specific band in the microwave spectrum, known as millimeter waves or the 28 GHz "Ka-band." More tangibly, if LMDS were used on a point-to-point basis the beam would be about as wide as a pencil lead (about a millimeter) and would have a frequency of approximately 28 billion cycles per second. The extremely high frequency used and the need for point to multipoint transmissions limits the distance that a receiver can be from a transmitter. This means that LMDS will be a "cellular" technology, based on multiple, contiguous, or overlapping cells. LMDS is expected to provide customers with multichannel video programming, telephony, video communications, and two-way data services. Incumbent LECs and cable companies may not obtain the in-region 1150 MHz license for three years. Within 10 years, licenses will be required to provide 'substantial service' in their service regions.

LOCAL EXCHANGE -- A geographic area generally determined by a PUC, in which calls generally are transmitted without toll charges to the calling or called party.

LOCAL NUMBER PORTABILITY -- The ability of an end user to change Local Exchange Carriers while retaining the same telephone number.

LOWER 48 STATES or LOWER 48 -- refers to the 48 contiguous states south of or below Alaska.

LOWER 49 STATES OR LOWER 49 -- refers to Hawaii and the 48 contiguous states south of or below Alaska.

MAN -- Metropolitan Area Network -- LANs interconnected within roughly a 50-mile radius. MANs typically use fiber optic cable to connect various wire LANs. Transmission speeds may vary from 2 to 100 Mbps.

MDU -- Multiple Dwelling Unit -- MDUs include multiple-family buildings, such as apartment and condominium complexes.

MMDS -- Multichannel Multipoint Distribution Service - also known as wireless cable. The FCC established the Multipoint Distribution Service (MDS) in 1972. Originally the Commission thought MDS would be used primarily to transmit business data. However, the service became increasingly popular in transmitting entertainment programming. Unlike conventional broadcast stations whose transmissions are received universally, MDS programming is designed to reach

only a subscriber based audience. In 1983 the Commission reassigned eight channels from the Instructional Television Fixed Service (ITFS) to MDS. These eight channels make up the MMDS. Frequently, MDS and MMDS channels are used in combination with ITFS channels to provide video entertainment programming to subscribers.

NARROWBAND -- A voice grade low-capacity communications circuit/path. It usually implies a speed of 56 kilobits per second or less.

NETWORK SWITCHING CENTER -- A location where installed switching equipment routes long-distance calls and records information with respect to calls such as the length of the call and the telephone numbers of the calling and called parties.

NETWORK SYSTEMS INTEGRATION -- Involves the creation of turnkey telecommunications networks and systems including: (i) route and site selection; (ii) rights of way and legal authorizations and/or acquisition; (iii) design and engineering of the system, including technology and vendor assessment and selection, determining fiber optic circuit capacity, and establishing reliability/flexibility standards; and (iv) project and construction management, including contract negotiations, purchasing and logistics, installation as well as testing.

NPT -- a New Product Tier -- a cable programming service tier offered to subscribers at prices set by the cable operator.

OCC -- Other Common Carrier -- A long-distance carrier other than the Company.

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PCS -- Personal Communication Services -- PCS encompasses a range of advanced wireless mobile technologies and services. It promises to permit communications to anyone, anyplace and anytime while on the move. The Cellular Telecommunications Industry Association (CTIA) defines PCS as a "wide range of wireless mobile technologies, chiefly cellular, paging, cordless, voice, personal communications networks, mobile data, wireless PBX, specialized mobile radio, and satellite-based systems." The FCC defines PCS as a "family of mobile or portable radio communications services that encompasses mobile and ancillary fixed communications services to individuals and businesses and can be integrated with a variety of competing networks."

PBX -- Private Branch Exchange -- A customer premise communication switch used to connect customer telephones (and related equipment) to LEC central office lines (trunks), and to switch internal calls within the customer's telephone system. Modern PBXs offer numerous software-controlled features such as call forwarding and call pickup. A PBX uses technology similar to that used by a central office switch (on a smaller scale). (The acronym PBX originally stood for "Plug Board Exchange.")

POP -- Point of Presence -- The physical access location interface between a LEC and a IXC network. The point to which the telephone company terminates a subscriber's circuit for long-distance service or leased line communications.

PRI -- Primary Rate Interface -- An ISDN circuit transmitting at T1 (DS-1) speed (equivalent to 24 voice-grade channels). One of the channels ("D") is used for signaling, leaving 23 ("B") channels for data and voice communication.

PRIVATE LINE -- Uses dedicated circuits to connect customer's equipment at both ends of the line. Does not provide any switching capability (unless supported by customer premise equipment). Usually includes two local loops and an IXC circuit.

PRIVATE NETWORK -- A communications network with restricted (controlled) access usually made up of private lines (with some PBX switching).

PUBLIC SWITCHED NETWORK -- That portion of a LEC's network available to all users generally on a shared basis (i.e., not dedicated to a particular user). Traffic along the public switched network is generally switched at the LEC's central offices.

RBOC -- Regional Bell Operating Company -- Any of the remaining five regional Bell holding companies which the AT&T Divestiture Decree established to serve as parent companies for the BOCs.

RCA -- REGULATORY COMMISSION OF ALASKA -- A state regulatory body empowered to establish and enforce rules and regulations governing public utility companies and others, such as The Company, within the state of Alaska (sometimes referred to as Public Service Commissions, or PSCs, or Public Utility Commissions, or PUCs). Previously known as the Alaska Public Utilities Commission (APUC).

RECIPROCAL COMPENSATION -- The same compensation of a new CLEC for termination of a local call by the BOC on its network, as the new competitor pays the BOC for termination of local calls on the BOC network.

SCHOOLACCESS(TM) -- The Company's Internet and related services offering to schools in Alaska. The federal mandate through the 1996 Telecom Act to provide universal service resulted in schools across Alaska qualifying for varying levels of discounts to support the provision of Internet services. The Universal Service Administrative Company through its Schools and Libraries Division administers this federal program.

SDN -- Software Defined Network -- A switched long-distance service for very large users with multiple locations. Instead of putting together their own network, large users can get special usage rates for calls carried on regular switched long-distance lines.

SECURITIES REFORM ACT - The Private Securities Litigation Reform Act of 1995.

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SENIOR HOLDINGS LOAN -- Holding's \$150,000,000 and \$50,000,000 credit facilities. You should see note 5(b) to the accompanying Notes to Consolidated Financial Statements included in Part II of this Report for more information.

SETTLEMENT RATES -- The rates paid to foreign carriers by United States international carriers to terminate outbound (from the United States) switched traffic and by foreign carriers to United States international carriers to terminate inbound (to the United States) switched traffic.

SLC -- Subscriber Line Charge -- A charge for the telephone line that connects a local telephone company to the subscriber's telephone system or medium.

SMATV -- Satellite Master Antenna Television -- (also known as "private cable systems") are multichannel video programming distribution systems that serve residential, multiple-dwelling units ("MDUs"), and various other buildings and complexes. A SMATV system typically offers the same type of programming as a cable system, and the operation of a SMATV system largely resembles that of a cable system -- a satellite dish receives the programming signals, equipment processes the signals, and wires distribute the programming to individual dwelling units. The primary difference between the two is that a SMATV system typically is an unfranchised, stand-alone system that serves a single building or complex, or a small number of buildings or complexes in relatively close proximity to each other.

SONET -- Synchronous Optical Network -- A 1984 standard for optical fiber transmission on the public network. 52 mbps to 13.22 Gigabits per second, effective for ISDN services including ATM.

TCP/IP -- Transmission Control Protocol/Internet Protocol -- A suite of network protocols that allows computers with different architectures and operating system software to communicate with other computers on the Internet.

T-1 -- A data communications circuit capable of transmitting data at 1.5 mbps.

TARIFF -- The schedule of rates and regulations set by communications common carriers and filed with the appropriate federal and state regulatory agencies; the published official list of charges, terms and conditions governing provision of a specific communications service or facility, which functions in lieu of a contract between the subscriber or user and the supplier or carrier.

TOKEN RING -- A local area network technology used to interconnect personal computers, file servers, printers, and other devices. Token Ring LANs typically operate at either 4 mbps or 16 mbps.

TRANSPORT CHARGES -- Expenses paid to facilities-based carriers for transmission between or within LATAs.

TRS SERVICES -- Telecommunications Relay Services -- Enables telephone conversations between people with and without hearing or speech disabilities. TRS relies on communications assistants ("CA") to relay the content of calls between users of text telephones ("TTYs") and users of traditional handsets (voice users). For example, a TTY user may telephone a voice user by calling a TRS provider where a CA will place the call to the voice user and relay the conversation by transcribing spoken content for the TTY user and reading text aloud for the voice user.

WAN -- Wide Area Network - A remote computer communications system. WANs allow file sharing among geographically distributed workgroups (typically at higher cost and slower speed than LANs or MANs). WANs typically use common carriers' circuits and networks. WANs may serve as a customized communication backbone that interconnects all of an organization's local networks with communications trunks that are designed to be appropriate for anticipated communication rates and volumes between nodes.

WORLD WIDE WEB or WEB -- A collection of computer systems supporting a communications protocol that permits multi-media presentation of information over the Internet.

1992 CABLE ACT -- The Cable Television Consumer Protection and Competition Act of 1992.

1996 TELECOM ACT -- The Telecommunications Act of 1996 - The 1996 Telecom Act was signed into law February 8, 1996. Under its provisions, BOCs were allowed to immediately begin manufacturing, research and development; GTE Corp. could begin providing interexchange services through its telephone companies nationwide; laws in 27 states that foreclosed competition were knocked down; co-carrier status for CLECs was ratified; and the physical collocation of competitors' facilities in LECs central offices was allowed.

The legislation breaks down the old barriers that prevented three groups of companies, the LECs, including the BOCs, the long-distance carriers, and the cable TV operators, from competing head-to-head with each other. The Act requires LECs to let new competitors into their business. It also requires the LECs to open up their networks to ensure that new market entrants have a fair chance of competing. The bulk of the legislation is devoted to establishing the terms under which the LECs, and more specifically the BOCs, must open up their networks.

The 1996 Telecom Act substantially changed the competitive and regulatory environment for telecommunications providers by significantly amending the Communications Act including certain of the rate regulation provisions previously imposed by the Cable Television Consumer Protection and Competition Act of 1992 (the "1992 Cable Act"). The 1996 Telecom Act eliminated rate regulation of the cable programming service tier in 1999. Further, the regulatory environment will continue to change pending, among other things, the outcome of legal challenges and FCC rulemaking and enforcement activity in respect of the 1992 Cable Act and the completion of a significant number of FCC rulemakings under the 1996 Telecom Act.

#### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

You should carefully review the information contained in this Annual Report, but should particularly consider any risk factors that we set forth in this Annual Report and in other reports or documents that we file from time to time with the SEC. In this Annual Report, in addition to historical information, we state our beliefs of future events and of our future operating results, financial position and cash flows. In some cases, you can identify those so-called "forward-looking statements" by words such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," or "continue" or the negative of those words and other comparable words. You should be aware that those statements are only our predictions and are subject to risks and uncertainties. Actual events or results may differ materially. In evaluating those statements, you should specifically consider various factors, including those outlined below. Those factors may cause our actual results to differ materially from any of our forward-looking statements. For these statements, we claim the protection of the safe harbor for forward-looking statements provided by the Securities Reform Act.

- Material adverse changes in the economic conditions in the markets we serve;
- The efficacy of the rules and regulations to be adopted by the FCC and state public regulatory agencies to implement the provisions of the 1996 Telecom Act; the outcome of litigation relative thereto; and the impact of regulatory changes relating to access reform;
- Our responses to competitive products, services and pricing, including pricing pressures, technological developments, alternative routing developments, and the ability to offer combined service packages that include local, cable and Internet services; the extent and pace at which different competitive environments develop for each segment of our business; the extent and duration for which competitors from each segment of the telecommunications industry are able to offer combined or full service packages prior to our being able to do so; the degree to which we experience material competitive impacts to our traditional service offerings prior to achieving adequate local service entry; and competitor responses to our products and services and overall market acceptance of such products and services;
- The outcome of our negotiations with ILECs and state regulatory arbitrations and approvals with respect to interconnection agreements; and our ability to purchase unbundled network

- elements or wholesale services from ILECs at a price sufficient to permit the profitable offering of local exchange service at competitive rates;
- Success and market acceptance for new initiatives, many of which are untested; the level and timing of the growth and profitability of new initiatives, particularly local access services, Internet (consumer and



- business) services and wireless services; start-up costs associated with entering new markets, including advertising and promotional efforts; successful deployment of new systems and applications to support new initiatives; and local conditions and obstacles;
- Uncertainties inherent in new business strategies, new product launches and development plans, including local access services, Internet services, wireless services, digital video services, cable modem services, and transmission services;
  - Rapid technological changes;
  - Development and financing of telecommunication, local access, wireless, Internet and cable networks and services;
  - Future financial performance, including the availability, terms and deployment of capital; the impact of regulatory and competitive developments on capital outlays, and the ability to achieve cost savings and realize productivity improvements;
  - Availability of qualified personnel;
  - Changes in, or failure, or inability, to comply with, government regulations, including, without limitation, regulations of the FCC, the RCA, and adverse outcomes from regulatory proceedings;
  - The remaining cost of our year 2000 compliance efforts;
  - Uncertainties in federal military spending levels and military base closures in markets in which we operate;
  - Other risks detailed from time to time in our periodic reports filed with the Securities and Exchange Commission.

These forward-looking statements (and such risks, uncertainties and other factors) are made only as of the date of this report and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained in this document to reflect any change in our expectations with regard to those statements or any other change in events, conditions or circumstances on which any such statement is based. Readers are cautioned not to put undue reliance on such forward-looking statements.

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PART I

Item 1. BUSINESS.

General

In this Annual Report, "we," "us" and "our" refer to General Communication, Inc. and its direct and indirect subsidiaries.

GCI was incorporated in 1979 under the laws of the State of Alaska and has its principal executive offices at 2550 Denali Street, Suite 1000, Anchorage, AK 99503 (telephone number 907-265-5600). Internet users can access information about GCI and its services at <http://www.GCI.com/> and <http://www.alaskaunited.com/>. The Company hosts Internet services at <http://www.GCI.net/>.

GCI is primarily a holding company and together with its direct and indirect subsidiaries, is a diversified telecommunications provider with a leading position in facilities-based long-distance service in the State of Alaska and is Alaska's leading cable television and Internet services provider.

We are the first significant provider in Alaska of an integrated package of long-distance, local and wireless telecommunications services, cable television services and Internet services and are well positioned to take advantage of growth opportunities in the communications, data and entertainment markets.

Financial information about industry segments

We have four reportable segments: long-distance services, cable services, local access services and Internet services.

We offer a full range of common carrier long-distance and other telecommunication services to business, government, other telecommunications companies and consumer customers, through our networks of fiber optic cables, digital microwave, and fixed and transportable satellite earth stations. Individually insignificant business units including network solutions, cellular resale and product sales are included in the "other" industry segment. None of these business units have ever met the quantitative thresholds for determining reportable segments.

We provide cable television services to residential, commercial and government users in the State of Alaska. Our cable systems serve 26 communities and areas in Alaska, including the state's three largest urban areas, Anchorage, Fairbanks and Juneau. Cable plant upgrades have enabled us to complement existing services by offering digital cable television services in Anchorage and Fairbanks, enhanced analog services in Juneau, and retail cable modem service (through our Internet segment) in Anchorage, Fairbanks and Juneau. We plan to expand our product offerings as plant upgrades in other communities in Alaska are completed.

We have provided facilities based competitive local exchange services in

Anchorage since 1997, and plan to provide similar competitive local exchange services in Alaska's other major population centers. Access to other major population centers depends on RCA approvals and negotiation and implementation of interconnection agreements with ILECs.

We have offered wholesale and retail Internet services since 1998. Deployment of the new undersea fiber optic cable described below has allowed us to offer enhanced services with high-bandwidth requirements.

You should see Note 10 to our Notes to Consolidated Financial Statements included in Part II of this Report for information about our operations by industry segment.

Historical development of our business during the past fiscal year Alaska United Project. We undertook a major construction project (referred to as Alaska United) with the goal of significantly increasing our communications bandwidth to and from locations in Alaska and

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the lower 49 states and through interconnection agreements with other carriers, to foreign locations. After a preliminary route survey was completed and initial cost components determined, we commissioned a detailed sea floor survey that was completed in 1996. The results of this survey pinpointed the exact route that the Alaska United fiber would take. We entered into a contract with Tyco Submarine Systems, Ltd. ("TSS"), one of the world's leading submarine cable vendors that has installed more than 150,000 miles of undersea cable. TSS was engaged to design, engineer, manufacture, and install the undersea cable. The cable was laid during the period from August to December 1998. Testing occurred after that and services commenced in late January 1999 for our Anchorage to Fairbanks segment and early February 1999 for the complete system. With construction of Alaska United complete, we transitioned traffic from leased satellite, terrestrial and microwave facilities to Alaska United facilities during the first quarter of 1999.

The Alaska United project provides a high capacity fiber optic link between points in Alaska and the lower 48 states through Seattle, Washington. Alaska United lands at our cable terminal stations in Whittier, Valdez and Juneau, Alaska. From Whittier, the fiber follows the Alaska railroad, highway, and over-land rights-of-ways to Anchorage. Between Whittier and Valdez, we constructed a second undersea fiber optic cable. The cable connects in Valdez with a fiber constructed by Kanas Telecom, Inc. ("Kanas"). We exchanged Dark Fiber with Kanas to obtain fiber facilities from Valdez to Fairbanks.

Kanas' largest customer filed notice of termination of its contract with Kanas. Since that time, the ownership structure of Kanas has been reorganized, with MCI WorldCom, Inc. becoming the principal owner and we now provide operational support. We continue to use the Kanas fiber facilities to carry our traffic to and from Fairbanks. We are unable to determine the ultimate resolution of these issues at this time. However we have alternative network facilities available to reroute any affected traffic.

In Juneau and Seattle, Alaska United connects through terminal stations to our existing network. The cable terminal stations house the power feed equipment necessary to power the undersea fiber optic cable system and the SONET equipment that transports data across the terrestrial network and the undersea fiber network.

Our Alaska United system is 2,331 miles long (1,995 miles undersea and 336 over land) and has a total design capacity of 10 billion bits per second (22 times what was previously available). It can route traffic in different directions in the event of equipment failures, and users have route diversity to achieve multiple fiber paths for back-up purposes when paired with our existing capacity on the North Pacific Cable. It currently delivers a minimum of 32,256 simultaneous clear channel voice or data circuits at transmission speeds of 2.5 billion bits per second. As demand increases, capacity can be quadrupled to support a minimum of 129,024 simultaneous clear channel voice or data circuits at speeds of 10 billion bits per second.

Financing for the Alaska United undersea fiber project included \$75 million through a separate bank credit agreement dated January 27, 1998 and \$50 million from funds obtained through the 1997 issuance of senior notes. You should see note 5 to the accompanying Notes to Consolidated Financial Statements included in Part II of this Report for more information.

Satellite Transponders. We entered into a purchase and lease-purchase option agreement in August 1995 for the acquisition of satellite transponders to meet our long-term satellite capacity requirements. The launch of the satellite in August 1998 failed. We did not assume launch risk and the launch was rescheduled for the first quarter of 2000.

The replacement Galaxy XR satellite was successfully launched January 24, 2000 from Arianespace Space Center in Kourou, French Guiana, and was made available to us March 5, 2000. We continue to transition our satellite communications traffic to Galaxy XR, and upon final acceptance, intend to finalize a long-term

lease purchase transaction. We will continue to lease transponder capacity until all telecommunications traffic is successfully transitioned to the new satellite. The satellite increases our satellite capacity and provides long-distance voice, fax, Internet and data traffic capabilities primarily for our customers in rural Alaska. We will use six C- and one Ku-band transponders on Galaxy XR once it achieves in-orbit check-

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out. The seven transponders represent a capital lease investment of approximately \$48 million. Each transponder is capable of carrying a minimum of 1,800 simultaneous voice or data calls.

The Ku-band transponder will be used to carry high-speed Internet traffic to more than half of Alaska schools, as well as voice and data services to remote fishing, mining and logging operations. Voice/fax, Internet, telemedicine and distance education applications will be delivered over both C-band and Ku-band.

Local Access Services. We began offering local exchange services in Anchorage in September 1997 and provided service to approximately 45,100, 28,300 and 3,300 lines at December 31, 1999, 1998 and 1997, respectively.

Our local access services segment face significant competition from Alaska Communications Systems, Inc.'s subsidiaries ("ACS") and AT&T Alascom, Inc.

The sale of Anchorage Telephone Utility ("ATU") to ACS, our primary ILEC competitor, was completed in May 1999. Subsequent to the sale and as a result of a settlement agreement between us and ACS, our relations have normalized somewhat with greater cooperation at operational levels resulting in some improvement in order processing and repair activity interfaces and procedures. Electronic access to certain of the ILEC's systems, while a scheduled term of the settlement agreement, has yet to be realized as software development allowing such access is still under development by ACS. Efforts to complete the development of software interfaces continued throughout the first quarter of 2000. In the interim ACS has agreed to process our residential and small business orders in a timelier manner, significantly reducing order delivery intervals for:

- new and additional lines,
- move orders,
- orders for feature additions or changes, and
- switch orders that move ACS subscribers to our service.

On March 4, 1999, an Alaska Superior Court Judge determined that the APUC (now RCA) erred in reaching its prior decision to deny our request to provide full local telephone service in Fairbanks and Juneau, Alaska. This service would be provided in competition against PTI (now a subsidiary of ACS), the existing monopoly provider. Among other things, the Court instructed the APUC to correctly assign the burden of proof to PTI rather than us, and to decide on our specific requests to provide service in Fairbanks and Juneau based on criteria established in the 1996 Telecom Act. The Court remanded the case back to the APUC for proceedings leading to their ruling. On July 1, 1999, the APUC ruled that the rural exemptions from local competition in Juneau, Fairbanks and North Pole would not be continued, which allowed us to negotiate for unbundled elements for the provision of competitive local service in these markets. The ILEC moved for reconsideration of this decision, and on October 11, 1999 the new RCA issued an order also allowing the rural exemptions in the Fairbanks and Juneau markets to expire. The ILEC has appealed these decisions. See Part I, Item 1. Business, Regulation, franchise authorizations and tariffs for more information. We believe this decision is important to bring about the benefits of competition to other communities in Alaska. We are currently in arbitration with the ILEC for interconnection and unbundled network elements for the provisioning of competitive local access services in these markets. We expect the RCA to approve an interconnection agreement for unbundled elements by September 2000.

In early 2001 we anticipate we will be competing with ACS subsidiaries in Fairbanks, Juneau, Fort Wainwright and Eielson Air Force Base (military bases near Fairbanks), and in North Pole. You should see Part I, Item 1. Business, Historical development of the Company's business during the past fiscal year - Local Access Services for more information. We also compete against AT&T in the Anchorage service area. AT&T offers local exchange service only to residential customers through total service resale. We expect further competitors in the Anchorage, Fairbanks and Juneau marketplaces, as Alaska Fiber Star and DSLnet have filed bonafide requests for interconnection with ACS. The Company expects competition from these latter entrants in the business customer telephony access, Internet access, DSL and private line markets. We believe our long-standing presence in Alaska and the strength of our brand (as well as ACS's) will make competitive entry difficult for these new entrants.

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Cable Services Expansion. We completed \$7.2 and \$11.5 million upgrades to our cable infrastructure in 1999 and 1998, respectively. These expenditures significantly increased the capacity and reliability of our systems, making possible two-way applications such as cable modems (as further described below)

and digital cable television programming, and provided capacity for additional program offerings.

Digital cable television services were offered in Anchorage in 1998, offering enhanced picture and audio quality, over 100 channels of programs, 40 channels of digital music, and many channels of premium and pay-per-view products. Digital cable service allows us to use digital compression to substantially increase the capacity of our cable communications systems, improve picture quality and provide CD quality audio. Digital cable subscriber counts increased from 1,200 at December 31, 1998 to 5,800 at December 31, 1999.

We introduced cable modem services in 1998, providing high-speed, dedicated access to the Internet through our coaxial cable network. Cable modem subscribers increased from 200 at December 31, 1998 to 5,700 at December 31, 1999. We believe our cable modem penetration rate is among the highest in the nation. Approximately 80 percent of our cable customers are able to receive cable modem service.

Internet Services. Our statewide SchoolAccess(TM) services (Internet access and related products and services for Alaska schools) commenced January 1998, with recent upgrades of 47 sites doubling access speeds to 128 kbps. Schools utilizing the SchoolAccess(TM) product are increasingly integrating the Internet into their educational programs. We provided SchoolAccess(TM) and other Internet services to approximately 257 schools in Alaska at the end of the fourth quarter of 1999. Our Internet access service is now used by more than half of the students in the state of Alaska.

We began a limited rollout of our dial-up Internet service in April 1998, which allowed us to test our new state-of-the-art Internet platform. We began our broad based offering in October 1998 and initiated major promotions in February 1999. Services were initially offered to residents of Anchorage, Fairbanks, Kodiak, Juneau, Kenai, Soldotna, Palmer and Wasilla, Alaska. Other Alaska communities were added over the next several months and continue to be added. Our GCI.net service supports 56 kbps dial-up connections with support for both V.90 and Kflex technologies, and supports cable modem services currently available at speeds up to 512 kbps. We believe our service has one of the best first-try connect rates and the fastest speeds available of any provider in Alaska. We plan to introduce additional service upgrades and promotional offerings in the future. Our dial-up Internet subscribers increased from less than 7,000 at December 31, 1998 to 44,900 at December 31, 1999.

Rural Equal Access. In 1996 we constructed 56 new earth stations in Western and Northern Alaska. As construction of those DAMA stations were completed, we requested Equal Access from the LECs serving those communities. Under Federal Communications Commission rules, substantially all LECs have three years to comply with an equal access request. The three-year time period expired for many of those locations. LECs started implementing the equal access conversion process in late 1998 and continued to convert locations through March 1999. As a result, approximately 34 rural DAMA-served communities were converted during this period to equal access enabling our customers to access our network without dialing extra digits.

PCS and LMDS licenses. We began developing plans for PCS wireless communications service deployment in 1995 and subsequently conducted a technical trial of our candidate technology. We have invested approximately \$2.2 million in our PCS license at December 31, 1999. PCS licensees are required to offer service to at least one-third of their market population within five years or risk losing their licenses. Service must be extended to two-thirds of the population within 10 years. We invested approximately \$275,000 in our LMDS license in 1998. LMDS licensees are required to provide 'substantial service' in their service regions within 10 years. We are in the design/build phase of our wireless implementation plan that we believe will allow retention of our PCS and LMDS licenses pursuant to their terms.

At the end of the license period, a renewal application must be filed. We believe renewal will generally be granted on a routine basis upon showing of compliance with FCC regulations and continuing service to the public. Licenses may be revoked and license renewal applications may be denied for cause.

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Narrative description of our business

General

We operate a broadband communications network that permits the delivery of a seamless integrated bundle of communications, entertainment and information services. We offer a wide array of consumer communications and entertainment services--including local telephone, long-distance and wireless communications, cable television, consulting services, network and desktop computing outsourced services, and dial-up and cable modem Internet access services at a wide range of speeds--all under the GCI brand name.

Our management believes that the size and growth potential of the voice, video and data market, the increasing deregulation of telecommunication services, and the increased convergence of telephony, wireless, and cable services offer us considerable opportunities to integrate our telecommunication, Internet and

cable services and expand into communications markets both within and, longer-term, outside of Alaska. We expect the rate of growth in industry-wide telecommunication revenues to continue to increase as the historical dominance of monopoly providers is challenged as a result of deregulation. Considerable deregulation has already taken place in the United States as a result of the 1996 Telecom Act with the barriers to competition between long-distance, local exchange and cable providers being lowered. We believe our acquisition of cable television systems and our development of local exchange service, Internet services, and wireless services leave us well positioned to take advantage of deregulated markets.

We are one of Alaska's leading providers of telecommunication, Internet and cable television services and maintain a strong competitive position. There is active competition in the sale of substantially all products and services we offer.

#### Alaska Voice, Video and Data Markets

For calendar year 1999, we estimate that the aggregate telecommunications, cable television, and Internet markets in Alaska generated revenues of approximately \$1 billion. Of this amount, approximately \$485 million was attributable to interstate and intrastate long-distance service, \$365 million was attributable to local exchange services, \$75 million was attributed to cable television, and \$75 million was attributable to all other services, including wireless and Internet services.

The Alaskan voice, video and data markets are unique within the United States. Alaska is physically distant from the rest of the United States and is characterized by large geographical size and relatively small, dense population clusters (with the exception of population centers such as Anchorage, Fairbanks and Juneau). It lacks a well-developed terrestrial transportation infrastructure, and the majority of Alaska's communities are accessible only by air or water. As a result, Alaska's telecommunication networks are different from those found in the lower 49 states.

Alaska today relies extensively on satellite-based long-distance transmission for intrastate calling between remote communities where investment in a terrestrial network would be uneconomic or impractical. Also, given the remoteness of Alaska's communities and lack, in many cases, of major civic institutions such as hospitals, libraries and universities, Alaskans are dependent on telecommunications to access the resources and information of large metropolitan areas in the rest of the U.S. and elsewhere. In addition to satellite-based communications, the telecommunications infrastructure in Alaska includes fiber optic cables between Anchorage, Fairbanks, and Juneau, traditional copper wire, and digital microwave radio on the Kenai Peninsula and other locations. For interstate and international communication, Alaska is connected to the Lower 48 states by three fiber optic cables.

Fiber optics is the preferred method of carrying Internet, voice, video and data communications, eliminating the delay commonly found in satellite connections. Widespread use of high capacity fiber optic facilities will allow continued expansion of business, government and educational infrastructure in Alaska.

#### Long-Distance Services

Industry. With the Communications Act of 1934, telecommunications was established as a regulated industry. The main objective of this act was to create an affordable and universal telephone service for the American people. As a result, AT&T was granted exclusive rights to serve the telecommunications industry. The next several decades brought significant improvements in technology. New advances

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created opportunities for providers of lower-cost services to enter the market, and in order to facilitate the entry of these new competitors, regulatory policies were changed. The government stepped into the market on January 1, 1984, and broke-up AT&T's near monopoly. The government's objective was to provide for greater competition in the telecommunications industry, as well as make room for the creation of more diversified products.

The FCC set price caps in 1989 to regulate the prices AT&T could charge for their services. Yet, by 1991 the market had become so much more competitive with regards to both long-distance and local calls that the FCC decided to deregulate most of AT&T's services.

The United States Congress passed the 1996 Telecom Act that permitted the local phone companies, the long-distance companies, and the cable service firms to penetrate each other's market. This has provided the telecommunications industry with new capabilities resulting in an industry that is more competitive than ever before. To reduce the burden and facilitate competitive advantages, companies are merging and acquiring other telecommunication and cable television firms.

The communications market is currently reported to be a \$270 billion market in the U.S. and is expected to grow at over 10% annually for the next five years. Backbone infrastructure services, inter-city and local wholesale transport

services, and local access services reportedly are among the most rapidly growing components of the current telecommunications sector with forecast growth at approximately 18% annually for the next five years. Analysts estimate that the addressable market for these products and services in the United States to be \$30 billion in 1999, expanding to \$80 billion by 2005.

Advancements within the next few years are expected to combine services directed toward voice communication with other activities such as data sharing, on-screen collaboration, faxing, Internet access, and game playing, among many other things.

We believe that federal and state regulators will continue to impact the telecommunications industry in 2000. Consummation of mergers between long-distance companies, local access services companies, and cable television companies is expected continue to blur the distinction between product lines and competitors. Synergies developed through mergers and acquisitions and obtaining end-to-end connectivity with customers is expected to drive profitability and success in penetrating new markets. Industry analysts believe that successful competitors will be the companies that can minimize regulatory battles and begin to offer a full suite of integrated services to their customers, using a network that is largely under their control.

Growth in data is expected to be a key component of continuing industry revenue growth. We believe that the data telecommunications business will eventually rival and perhaps become larger than the traditional voice telephony market. ISPs have become major customers and many long-distance companies have acquired ISPs and web-hosting companies.

General. We supply a full range of common carrier long-distance and other telecommunication products and services. We operate a state-of-the-art, competitive telecommunications network employing the latest digital transmission technology based upon fiber optic and digital microwave facilities within and between Anchorage, Fairbanks and Juneau, including a self-constructed and financed digital fiber optic cable and additional owned capacity on another undersea fiber optic cable, both linking Alaska to the networks of other carriers in the lower 49 states, and the use of satellite transmission to remote areas of Alaska (and for certain inter-state traffic as well). Virtually all switched services are computer controlled, digitally switched, and interconnected by a packet switched signaling network.

We provide interstate and intrastate long-distance services throughout Alaska using our own facilities or facilities leased from other carriers. We also provide (or join in providing with other carriers) telecommunication services to and from Alaska, Hawaii, the lower 48 states, and many foreign nations and territories.

We offer cellular services by reselling other cellular providers' services. We expect to offer wireless services over our own facilities, and have purchased in FCC auctions PCS and LMDS wireless broadband licenses covering markets in Alaska. We are required by the FCC to provide adequate broadband PCS

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service to at least one-third of the population in our licensed areas within five years of being licensed and two-thirds of the population in our licensed areas within ten years of being licensed. We are required by the FCC to provide 'substantial service' in our service region within 10 years to retain our LMDS license. The licenses are granted for ten-year terms from the original date of issuance and may be renewed by meeting the FCC's renewal criteria and upon compliance with the FCC's renewal procedures.

Products. Our long-distance services industry segment is engaged in the transmission of interstate and intrastate-switched MTS and private line and private network communication service between the major communities in Alaska, and the remaining United States and foreign countries. Our message toll services include intrastate, interstate and international direct dial, toll-free 800, 888 and 877 services, 900 services, GCI calling card, debit card, operator and enhanced conference calling, frame relay, SDN, ISDN technology based services, as well as termination of northbound toll service for MCI WorldCom, Sprint and several large resellers who do not have facilities of their own in Alaska. We also provide origination of southbound calling card and toll-free 800, 888 and 877 toll services for MCI WorldCom and Sprint. Regulated telephone relay services for the deaf, hard-of-hearing and speech impaired are provided through our operator service center in Wasilla, Alaska. We offer our message services to commercial, residential, and government subscribers. Subscribers may generally cancel service at any time. Toll related services account for approximately 57.2%, 64.0%, and 69.4% of our 1999, 1998, and 1997 revenues, respectively. Private line and private network services utilize voice and data transmission circuits, dedicated to particular subscribers, which link a device in one location to another in a different location.

We have positioned ourselves as a price and customer service leader in the Alaska telecommunication market. Rates charged for our long-distance services are designed to be equal to or below those for comparable services provided by our competitors.

In addition to providing communication services, we also design, sell, service and operate, on behalf of certain customers, dedicated communication and computer networking equipment and provide field/depot, third party, technical support, telecommunications consulting and outsourcing services through our Network Solutions business. We also supply integrated voice and data communication systems incorporating interstate and intrastate digital private lines, point-to-point and multipoint private network and small earth station services. Our Network Solutions sales and services revenue totaled \$11.3, \$12.1 and \$10.3 million in the years ended December 31, 1999, 1998 and 1997, respectively, or approximately 4.0%, 4.9% and 4.6% of total revenues, respectively. Presently, there are 18 competing companies in Alaska that actively sell and maintain data and voice communication systems. Twelve are located in Anchorage, four in Fairbanks and two in Juneau.

Our ability to integrate telecommunications networks and data communication equipment has allowed us to maintain our market position on the basis of "value added" support services rather than price competition. These services are blended with other transport products into unique customer solutions, including managed services and outsourcing.

Facilities. Our telecommunication facilities include a fiber optic cable connecting Anchorage, Whittier, Valdez, Fairbanks and Juneau, Alaska and Seattle, Washington, which was placed into service in February 1999. We also own a portion of an additional undersea fiber optic cable. The fiber optic cables allow us to carry our Anchorage, Eagle River, Wasilla, Palmer, Kenai Peninsula, Valdez, Whittier, Glenallen, Fairbanks, and Juneau, Alaska traffic to and from the contiguous lower 48 states over terrestrial circuits, eliminating the one-quarter second delay associated with satellite circuits. The Company's preferred routing for this traffic is via undersea fiber optic cable, which makes available satellite capacity to carry the Company's rural interstate and intrastate traffic.

Other facilities include major earth stations at Eagle River, Fairbanks, Juneau, Prudhoe Bay, Kodiak, Sitka, Ketchikan, Unalaska, Barrow, Bethel, Nome, Dillingham, Kotzebue, King Salmon, Adak, and Cordova, all in Alaska, and at Issaquah, Washington, serving the communities in their vicinity. The Eagle River and Fairbanks earth stations are linked by digital microwave facilities to distribution centers in Anchorage and Fairbanks, respectively. We expect to complete construction of a fiber optic cable system from the Anchorage distribution center to the Eagle River central office in second quarter of 2000. The Issaquah earth station is connected with the Seattle distribution center by means of diversely routed fiber optic cable transmission systems, each having the capability to restore the other in the event of failure.

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The Juneau earth station and distribution centers are colocated. We also have digital microwave facilities serving the Kenai Peninsula communities.

We use our DAMA facilities to serve 56 additional locations throughout Alaska. The digital DAMA system allows calls to be made between remote villages using only one satellite hop thereby reducing satellite delay and capacity requirements while improving quality. We obtained the necessary RCA and FCC approvals waiving current prohibitions against construction of competitive facilities in rural Alaska, allowing for deployment of DAMA technology in 56 sites in rural Alaska on a demonstration basis. In addition, over 80 very small aperture terminal ("VSAT") facilities provide dedicated Internet access to rural public schools throughout Alaska.

Our Anchorage, Fairbanks, and Juneau distribution centers contain electronic switches to route calls to and from local exchange companies and, in Seattle, to obtain access to MCI WorldCom, Sprint and other facilities to distribute our southbound traffic to the remaining 49 states and international destinations. In Anchorage, a Lucent digital host switch is connected with fiber to six remote facilities that are co-located in the ILEC's switching centers, to provide both local and long distance service. An extensive local fiber network in Anchorage supports both cable television service and telephony services. The Anchorage, Fairbanks, and Juneau facilities also include digital access cross-connect systems, frame relay data switches, Internet platforms, and in Anchorage, a co-location facility for interconnecting and hosting equipment for other carriers. We also maintain an operator service center in Wasilla, Alaska.

As described previously, we completed construction and placed into service in February 1999 a fiber optic cable connecting Anchorage, Whittier, Valdez, Fairbanks and Juneau, Alaska and Seattle Washington. We also own a portion of an additional undersea fiber optic cable. The fiber optic cables allow us to carry our Anchorage, Eagle River, Wasilla, Palmer, Kenai Peninsula, Valdez, Whittier, Glenallen, Fairbanks, and Juneau area traffic to and from the contiguous lower 48 states over terrestrial circuits, eliminating the one-quarter second delay associated with satellite circuits. Our preferred routing for this traffic is via undersea fiber optic cable, which makes available satellite capacity to carry our rural interstate and intrastate traffic.

We employ satellite transmission for rural intrastate traffic and certain other

major routes and use advanced digital transmission technology throughout our systems. Pursuant to a purchase and lease-purchase option agreement entered into in August 1995 we lease C-band transponders on Hughes Communications Galaxy, Inc. (now PanAmSat Corporation ("PanAmSat")) Galaxy IX satellite and have agreed to acquire satellite transponders on PanAmSat Galaxy XR satellite to meet our long-term satellite capacity requirements. The Galaxy XR satellite was successfully launched in January 2000, with services being transitioned from leased transponders on the Galaxy IX (C-band) and SBS-5 (Ku-band) satellites to the new satellite during the first quarter of 2000.

We employ advanced transmission technologies to carry as many voice circuits as possible through a satellite transponder without sacrificing voice quality. Other technologies such as terrestrial microwave systems, metallic cable, and fiber optics tend to be favored more for point-to-point applications where the volume of traffic is substantial. With a sparse population spread over a wide geographic area, neither terrestrial microwave nor fiber optic transmission technology is considered to be economically feasible in rural Alaska in the foreseeable future.

Customers. We had approximately 90,800, 82,000 and 89,000 active Alaska subscribers to our message telephone service at December 31, 1999, 1998 and 1997, respectively. Approximately 12,500, 12,100 and 11,500 of these were business and government users at December 31, 1999, 1998 and 1997, respectively, and the remainders were residential customers. Reductions in our residential customer counts were primarily attributed to new competitive pressures in Anchorage and other markets we serve. MTS revenues (excluding operator services and private line revenues) averaged approximately \$10.5 million per month during 1999.

Equal access conversions have been completed in all communities served with owned facilities. We estimate that we carry over 45% of business and residential traffic as a statewide average for both originating interstate and intrastate MTS traffic.

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<TABLE>  
A summary of our switched MTS traffic (in minutes) follows:  
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Interstate Minutes

For Quarter ended	South-bound (1)	North-bound	Calling Card	Inter-national Minutes	Combined Interstate and Inter-national Minutes	Intra-state Minutes	Total Minutes
-----							
(Amounts in thousands)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
March 31, 1997	83,284	56,588	8,110	1,741	149,723	32,020	181,743
June 30, 1997	85,933	58,420	7,189	1,795	153,337	34,405	187,742
September 30, 1997	93,510	60,390	5,530	1,842	161,272	34,755	196,027
December 31, 1997	87,657	61,992	5,157	1,703	156,509	31,962	188,471
-----							
Total 1997	350,384	237,390	25,986	7,081	620,841	133,142	753,983
=====							
March 31, 1998	86,899	64,116	4,810	1,889	157,714	33,082	190,796
June 30, 1998	93,817	67,296	4,353	1,910	167,376	34,890	202,266
September 30, 1998	103,423	61,690	4,227	1,940	171,280	35,748	207,028
December 31, 1998	90,792	61,514	4,197	1,706	158,209	33,598	191,807
-----							
Total 1998	374,931	254,616	17,587	7,445	654,579	137,318	791,897
=====							
March 31, 1999	94,623	57,039	3,694	1,578	156,934	34,950	191,884
June 30, 1999	128,623	52,954	3,383	1,649	186,609	37,241	223,850
September 30, 1999	146,473	56,577	3,273	1,680	208,003	38,078	246,081
December 31, 1999	137,077	64,823	3,204	1,609	206,713	36,055	242,768
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Total 1999	506,796	231,393	13,554	6,516	758,259	146,324	904,583
=====							

<FN>  
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1 The 1999 Interstate Southbound minutes include traffic carried from Washington to Oregon by us on behalf of an OCC.  
</FN>



</TABLE>

All minutes data were taken from our internal billing statistics reports.

In 1993, we entered into a significant business relationship with MCI (now MCI WorldCom) that includes the following agreements.

- We agreed to terminate all Alaska-bound MCI long-distance traffic and MCI agreed to terminate all of our long-distance traffic terminating in the lower 49 states excluding Washington, Oregon and Hawaii;
- MCI allowed us to license certain service marks for use in Alaska;
- MCI, in connection with providing to us credit enhancement to permit us to purchase a portion of an undersea cable linking Seward, Alaska, with Pacific City, Oregon, leased from us all of the capacity we owned on the undersea fiber optic cable and we leased such capacity back from MCI;
- MCI purchased certain of our service marks; and
- The parties agreed to share some communications network resources and various marketing, engineering and operating resources. We also carry MCI's 800, 888 and 877 traffic originating in Alaska and terminating in the lower 49 states and handle traffic for MCI's calling card customers when they are in Alaska. Concurrently with these agreements, MCI purchased approximately 31% (18.7% as of December 31, 1999) of GCI's Common Stock and presently controls nominations to two seats on the Board. In conjunction with the Cable Acquisition Transactions, MCI purchased an additional two million shares at a premium to the then current market price for \$13 million or \$6.50 per share.

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Revenues attributed to MCI WorldCom in 1999, and MCI in 1998 and 1997 totaled \$40.4 million, \$36.0 million and \$33.5 million, or 14.5%, 14.6% and 15.0% of total revenues, respectively. The contract was amended in March 1996 extending its term three years to March 31, 2001. The amendment also reduced the rate to be charged by us for certain MCI WorldCom traffic for the period April 1, 1996 through July 1, 1999 and thereafter. The amendment expanded the scope of the contract to include all of the affiliates of the MCI Worldcom merged companies.

In 1993 we entered into a long-term agreement with Sprint, pursuant to which we agreed to terminate all Alaska-bound Sprint long-distance traffic and Sprint agreed to handle substantially all of our international traffic. Services provided pursuant to the contract with Sprint resulted in revenues in 1999, 1998 and 1997 of approximately \$19.8 million, \$25.2 million and \$23.0 million, or approximately 7.1%, 10.2% and 10.3% of total revenues, respectively.

The contract was amended in April 1999 extending its term three years to April 2002. The amendment also reduced the rate in dollars we charge for certain Sprint traffic for the period March 1999 through January 2001 and thereafter.

With the contracts and amendment described above, we are assured that MCI WorldCom and Sprint, our two largest customers, will continue to make use of our services during the extended term. Both MCI WorldCom and Sprint are major customers of our long-distance services industry segment. Loss of one or both of these customers would have a significant detrimental effect on our revenues and contribution. There are no other individual customers, the loss of which would have a material impact on our revenues or gross profit.

Other common carriers traffic routed to us for termination in Alaska is largely dependent on traffic routed to MCI WorldCom and Sprint by their customers. Pricing pressures, new program offerings and market consolidation continue to evolve in the markets served by MCI WorldCom and Sprint. If, as a result, their traffic is reduced, or if their competitors' costs to terminate or originate traffic in Alaska are reduced, our traffic will also likely be reduced, and we may have to reduce our pricing to respond to competitive pressures. We are unable to predict the effect of such changes on our business, however given the materiality of other common carriers revenues to us; a significant reduction in traffic or pricing could have a material adverse effect on our financial position, results of operations and liquidity.

We provided private line and private network communication products and services, including SchoolAccess(TM) private line facilities, to approximately 1,673 commercial and government accounts in 1999. These products and services generated approximately 7.9%, 7.9% and 7.1% of total revenues during the years ended December 31, 1999, 1998 and 1997, respectively.

Although we have several agreements to facilitate the origination and termination of international toll traffic, we have neither foreign operations nor export sales (see Part I, Item 1. Business, Foreign and Domestic Operations and Export Sales).

Competition. The long-distance industry is intensely competitive, rapidly evolving and subject to constant technological change. Competition is based upon price and pricing plans, the types of services offered, customer service, billing services, performance, perceived quality, reliability and availability. Certain of our competitors are substantially larger than us and have greater financial, technical and marketing resources than we have. Although we believe we have the human and technical resources to pursue our strategy and compete

effectively in this competitive environment, our success will depend upon our ability to profitably provide high quality, high value services at prices generally competitive with, or lower than, those charged by our competitors.

In the long-distance market, we compete against AT&T Alascom, ACS, the Matanuska Telephone Cooperative, certain smaller rural LEC affiliates, and may in the future compete against new market entrants. AT&T Alascom, our principal competitor in long-distance services, has substantially greater resources and access to capital than we have. This competitor's interstate rates are integrated with those of AT&T Corp. and are regulated in part by the FCC. While we initially competed based upon offering substantial discounts, those discounts have been eroded in recent years due to lowering of prices by AT&T Alascom and entry of other competitors into the long-distance markets we serve. Under the terms of AT&T's

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acquisition of Alascom, AT&T Alascom rates and services must mirror those offered by AT&T, so changes in AT&T prices indirectly affect our rates and services. AT&T's and AT&T Alascom's interstate prices are regulated under a price cap plan whereby their rate of return is not regulated or restricted. Price increases by AT&T and AT&T Alascom generally improve our ability to raise prices while price decreases pressure us to follow. We believe we have, so far, successfully adjusted our pricing and marketing strategies to respond to AT&T and other competitors' pricing practices. However, if competitors significantly lower their rates, we may be forced to reduce our rates, which could have a material adverse effect on us.

As allowed under the 1996 Telecom Act, ATU (now ACS) and other LECs entered the interstate and international long-distance market, and pursuant to RCA authorization, entered the intrastate long-distance market in 1997. ACS and other LECs generally resell other carriers' services in the provision of their interstate and intrastate long-distance services.

Another carrier completed construction of fiber optic facilities connecting points in Alaska to the lower 48 states in 1999. The additional fiber system provides direct competition to services we provide on our owned fiber optic facilities. We believe we can successfully compete with products and services offered by the competing carrier.

In the wireless communications services market, we expect our PCS business to compete against the cellular subsidiaries of AT&T and ACS and resellers of those services in Anchorage and other markets. The wireless communications industry continues to experience significant consolidation. AT&T has acquired wireless companies and negotiated roaming arrangements that give it a national presence. The mergers or joint ventures of Bell Atlantic/GTE/Vodafone AirTouch, MCI WorldCom/Sprint and SBC/Ameritech will create large, well-capitalized competitors with substantial financial, technical, marketing and other resources. These competitors may be able to offer nationwide services and plans more quickly and more economically than we can, and obtain roaming rates that are more favorable than those that we obtain.

Our long-distance services sales efforts are primarily directed toward increasing the number of subscribers we serve, selling bundled services, and generating incremental revenues through product and feature upsale opportunities. We sell our long-distance communications services through telemarketing, direct mail advertising, door-to-door selling, and local media advertising.

#### Cable Services

Industry. The programmed video services industry includes traditional broadcast television, cable television, wireless cable, and DBS systems. Technology convergence may also soon allow programmed video via the internet but reluctance to change the current delivery structure will likely limit the availability of programming in the near term. In the mean time, cable television providers have added non-broadcast programming, utilized improved technology to increase channel capacity and expanded service markets to include more densely populated areas and those communities in which off-air reception is not problematic. Broadcast television stations including network affiliates and independent stations generally serve the urban centers. One or more local television stations may serve smaller communities. Rural communities may not receive local broadcasting or have cable systems but may receive direct broadcast programming via a satellite dish.

In Alaska, cable television was introduced in the 1970s to provide television signals to communities with few or no available off-air television signals and to communities with poor reception or other reception difficulties caused by terrain interference. Since that time, as on the national level, the cable television providers in Alaska have added non-broadcast programming.

Advancements in technology, facility upgrades and network expansions to enable migration to digital programming are expected to have a significant impact on cable services in the future. We expect that changing federal, state and local regulations, intense competition, and uncertain technologies and standards will challenge the industry.

Acquisitions and mergers are shaping the cable industry in a technological convergence similar to what is happening in the telecommunications industry. AT&T completed its \$48 billion takeover of cable television provider Tele-Communications Inc. in February 1999, gaining the last mile connection to

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homeowners with fiber and coaxial cable over which it is expected to sell online access and Internet phone service. AT&T is also negotiating with other cable companies for access to their lines.

Convergence of TV and the Internet isn't expected to become a widespread phenomenon until after 2000. Analysts expect that as many as 5 million cable subscribers may sign up in 1999 for high-speed cable modems that will give them access to the Internet. We are currently offering such high-speed cable modem access in Anchorage, Fairbanks, and Juneau.

We expect basic cable to be impacted by two forces: possible reimposition of rate regulations, and additional competition from wireless cable providers. After averaging 3.4% growth for the last five years, industry analysts project that cable subscriber growth in 1999 may slow to 1.8%, or 66.6 million homes. Industry analysts predict that cable providers may see a 12% hike in ad revenues, to \$6.9 billion.

Direct-broadcast satellite operators increased their subscriptions by approximately 39% in 1998, to 8.9 million, according to industry analysts. The industry is expected to add 2.6 million subscribers in 1999. With digital transmissions and compression, cable operators are better able to offer a variety and quality of channels to rival DBS, with pay-per-view choices that can approximate video-on-demand.

Digital video is projected to grow significantly over the next three to four years as cable network upgrade efforts are completed and the cost of digital set-top technology decreases. Margins related to digital programming are expected to climb due to the ability to reuse programming at low or no incremental cost.

Analysts believe data services will be an additional opportunity for cable providers in the next three to five years and that cable will be the most widely available, most cost efficient way to access the Internet at very high speeds and with high video quality. The incremental opportunity for cable from data may rival that of digital video according to industry analysts. Additional opportunities are expected in voice-over cable applications that will allow cable providers to offer local telephone service to cable subscribers.

The market for programmed video services in Alaska includes traditional broadcast television, cable television, wireless cable, and DBS systems. Broadcast television stations including network affiliates and independent stations serve the urban centers in Alaska. Seven, four and two broadcast stations serve Anchorage, Fairbanks and Juneau, respectively. In addition, several smaller communities such as Bethel are served by one local television station that is typically a PBS affiliate. Other rural communities without cable systems receive a single state sponsored channel of television by a satellite dish and a low power transmitter.

General. As a result of acquisitions completed effective October 31, 1996, we have become Alaska's leading cable television service provider to residential, commercial and government users in the State of Alaska. Our cable television systems serve 26 communities and areas in Alaska, including the state's three largest urban areas, Anchorage, Fairbanks, and Juneau. Our statewide cable systems consist of approximately 1,806 miles of installed cable plant having 330 to 550 MHz of channel capacity.

We completed a \$12.5 million upgrade in 1998 that significantly increased the capacity and reliability of our Anchorage and Juneau cable systems. We deployed more than 200 miles of fiber optic cable in Anchorage and increased the carrying capacity of 900 miles of cable television line from 450 MHz to 550 MHz.

The result of these upgrades is an increase in channel capacity and system reliability, facilitating the delivery of additional video programming and new services such as enhanced video, high-speed Internet access and telephony, and the capability to support two-way applications such as cable modems and digital cable. We completed field-testing and deployed our digital converter cable service in Anchorage in 1998. Digital compression has enabled us to increase the channel capacity of our Anchorage cable communications systems to more than 100 channels, provide digital audio channels, as well as improve picture and sound quality.

Products. Programming services offered to our cable television systems subscribers differ by system (all information as of December 31, 1999).

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Anchorage, Bethel, Kenai and Soldotna systems. Each system offers a basic

service. In addition, Anchorage and Bethel offer a CPS. A NPT is only offered in the Anchorage cable system. The Anchorage system, which is located in the urban center for Alaska, is fully addressable, with all optional services scrambled, aside from the broadcast basic. Kenai, Soldotna, and Bethel had fewer channels, less service options and less an urban orientation, and use traps for program control. As a result, these smaller systems do not have access to pay-per-view services.

The composition and rates of the levels of service vary between the systems. The Anchorage cable system offers a basic service that includes 19 channels. The Anchorage cable system offers a CPS that includes 32 channels at an additional cost. Subscribers, for an additional cost, receive the six-channel NPT service, which includes TNT, CNN, Discovery, MSNBC, Outdoor Life and the Sci-/Fi Channel. The Bethel cable system offers a basic service of 24 channels and a CPS tier of 11 channels for an additional cost per month. Basic service for the Kenai/Soldotna cable system consisted of 37 channels. Pay TV services are available either individually or as part of a value package. Commercial subscribers such as hospitals, hotels and motels are charged negotiated monthly service fees. Apartment and other multi-unit dwelling complexes receive basic services at a negotiated bulk rate.

Fairbanks, Juneau, Ketchikan and Sitka systems. The programming services we currently offer to subscribers are structured so that each cable system offers a basic service and a CPS. Each of the cable systems has different basic service packages at different rates. Fairbanks, the second largest city in Alaska, has a fully addressable system and offers a 12 channel basic and 35 channel CPS tier. Three channels of pay-per-view are available to basic and CPS subscribers. Fairbanks, North Pole, Fort Wainwright, and Eielson Air Force Base are all served by the Fairbanks headend and have the same lineup. Fort Greely, a remote military post, is a stand-alone system, which is fully addressable. Fort Greely has 8 basic channels, a 21 channel CPS tier, and 1 pay-per-view channel available to all subscribers. The reverse path in the Fairbanks market was activated during the third quarter of 1999 and we now offer cable modem Internet access. We expect to offer digital service in Fairbanks during the second quarter of 2000.

The Juneau cable system offers a 13-channel basic service package and a Tier 1 that includes basic service plus an additional 4 channels. The system also offers a CPS Tier 2 that consists of basic service plus Tier 1 service and additional 43 channels. The Ketchikan system offers a 12 channel basic service and a preferred level of service that offers an additional 38 channels. The Sitka system offers a 12 channel basic service. Preferred service includes basic service plus 38 additional channels. The Ketchikan, Sitka, Petersburg and Sitka systems all launched a digital music service called "DMX." This service offers 30 channels of commercial free music and is offered for \$7.95 per month.

The Juneau system was upgraded in 1998. We expect to upgrade the Ketchikan system in 2000. The Juneau upgrade consisted of extending the bandwidth to 550MHz, activating the reverse and introducing advanced analog set top boxes. The new set tops allowed Juneau subscribers access to impulse pay per view including highly secured 24 hour adult products, 30 channels of CD quality music and a new on screen navigator.

During May of 1999, the Juneau system launched high-speed Internet access through cable modems. The system ended 1999 with 1,100 high-speed cable modems installed.

Kodiak, Valdez, Cordova, Petersburg, Wrangell, Kotzebue and Nome systems. These systems offer up to 30 channels of the most popular basic cable channels, as well as the major broadcast networks, packaged into three levels of service. In Nome, Kotzebue and Cordova, basic service consists of three channels, one of which is a PBS channel. PBS service is also included with the 11 channels of basic service in Kodiak, 7 in Valdez and 11 each in Wrangell and Petersburg. In addition, Wrangell and Petersburg have matching line-ups with 39 additional channels in the preferred level of service, and an additional 5 channels of premium service. Nome offers a 33 channel CPS Tier 1 and 5 channels of premium service. Kotzebue closely matches Nome with the exception of one more channel in the CPS Tier 1 and one less channel in the premium offering. In addition to basic service, Cordova offers a 20 channel CPS Tier 1, 10 Channel CPS Tier 2 with 3 premium channels available.

We completed system upgrades in Kodiak and Valdez in 1998. In Kodiak, 6 channels were added to basic service. The CPS tier added 8 new channels including Disney, which was formally a premium service. The

NPT tier was reduced to 11 channels with 2 new networks. Premium services were repackaged for better value. The total available channels are now 47. Valdez added 5 channels to basic service and expanded the CPS tier with 6 channels including Disney. Although remaining at 9 channels, 5 new services were added to the NPT tier as traditional services were migrated into the other tiers. Nome and Kotzebue systems upgrades were completed in March 1999. The upgrade will allow the launch of additional programming and the shift of Disney from premium to tier service.

Seward system. We upgraded the Seward cable system in 1997. Total channels were increased to 49, packaged in two levels of service. Basic service was expanded from 3 to 8 channels. CPS had 30 channels (including basic service) and was expanded to 44. All of the channels, with the exception of local origination programming and a single translator channel licensed to the City of Seward, were received via satellite. In addition there were five channels of premium pay services. The system is fully addressable. The system provides 12 channels to 300 outlets in a State of Alaska correction facility through a separate headend.

Homer system. We upgraded the Homer cable system in 1997. Total channels were increased to 50, packaged into two levels of service. Basic service was expanded from 8 channels to 12. CPS had 36 channels (including basic service channels) and was expanded to 45 channels. All of the channels, with the exception of four local translator channels and local origination programming, are received via satellite. In addition, five channels of premium pay services are offered. The system is fully addressable.

Facilities. Our cable television businesses are located in Anchorage, Eagle River, Chugiak, Peters Creek, Kenai, Ridgeway, Soldotna, Bethel, Fort Richardson, Elmendorf Air Force Base, Fairbanks, Fort Wainwright, North Pole, Fort Greely, Eielson Air Force Base, Juneau, Sitka, Ketchikan, Petersburg, Wrangell, Cordova, Homer, Valdez, Kodiak, Kodiak Coast Guard Air Station, Kotzebue, and Nome, Alaska. Our facilities include cable plant and head-end distribution equipment. Certain of our head-end distribution centers are collocated with customer service and administrative offices.

Customers. Our cable systems passed approximately 174,000, 171,000, and 167,500 homes at December 31, 1999, 1998 and 1997, respectively, and served approximately 116,700, 111,900 and 108,000 subscribers at December 31, 1999, 1998 and 1997, respectively. Revenues derived from cable television services totaled \$61.1 million, 57.6 million, and 55.2 million in 1999, 1998 and 1997, respectively.

Competition. A number of other cable operators provide cable service in Alaska. All of these companies are relatively small, with the largest having fewer than 6,500 subscribers. Cable television systems face competition from alternative methods of receiving and distributing television signals and from other sources of news, information and entertainment such as off-air television broadcast programming, newspapers, movie theaters, live sporting events, interactive computer services, Internet services and home video products, including videotape cassette and video disks. The extent to which a cable television system is competitive depends, in part, upon the cable system's ability to provide quality programming and other services at competitive prices.

Our Fairbanks system faces significant competition from alternative cable television providers. Upgrades to our Fairbanks facilities, expanded product offerings and increased marketing efforts are expected to increase market penetration from 45.6% at December 31, 1999. Our average market penetration rate for all systems was 61.4% at December 31, 1999.

The 1996 Telecom Act authorizes LECs and others to provide a wide variety of video services competitive with services provided by cable systems and to provide cable services directly to subscribers. Certain LECs in Alaska may seek to provide video services within their telephone service areas through a variety of distribution methods. Cable systems could be placed at a competitive disadvantage if the delivery of video services by LECs becomes widespread since LECs may not be required, under certain circumstances, to obtain local franchises to deliver such video services or to comply with the variety of obligations imposed upon cable systems under such franchises. Issues of cross-subsidization by LECs of video and telephony services also pose strategic disadvantages for cable operators seeking to compete with LECs who provide video services.

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Our Cable Systems face limited additional competition from private SMATV systems that serve condominiums, apartment and office complexes and private residential developments. The operators of these SMATV systems often enter into exclusive agreements with building owners or homeowners' associations. Due to the widespread availability of reasonably priced earth stations, SMATV systems now can offer both improved reception of local television stations and many of the same satellite-delivered program services offered by franchised cable systems. The ability of the Cable Systems to compete for subscribers in residential and commercial developments served by SMATV operators is uncertain. We continue to develop and deploy competitive packages of services (video, data and telephony) to these residential and commercial developments. The 1996 Telecom Act gives cable operators greater flexibility with respect to pricing of cable television services provided to subscribers in multi-dwelling unit residential and commercial developments. It also broadens the definition of SMATV systems not subject to regulation as a franchised cable television service.

The availability of reasonably-priced HSD earth stations enables individual households to receive many of the satellite-delivered program services formerly available only to cable subscribers. Furthermore, the 1992 Cable Act contains

provisions, which the FCC has implemented with regulations, to enhance the ability of cable competitors to purchase and make available to HSD owners certain satellite-delivered cable programs at competitive costs.

In recent years, the FCC and the Congress have adopted policies providing a more favorable operating environment for new and existing technologies that provide, or have the potential to provide, substantial competition to cable systems. These technologies include, among others, DBS services that transmit signals by satellite to receiving facilities located on the premises of subscribers. Programming is currently available to the owners of DBS facilities through conventional, medium and high-powered satellites.

DBS systems are expected to use video compression technology to increase the channel capacity of their systems to provide movies, broadcast stations and other program services competitive with those of cable systems. The extent to which DBS systems are competitive with the service provided by cable systems depends, among other things, on the availability of reception equipment at reasonable prices and on the ability of DBS operators to provide competitive programming. DBS services are slowly adding broadcast stations to their product offerings beginning with the largest broadcast markets that eliminates the problem of having to add a second external off-air antenna. DBS signals are subject to degradation from atmospheric conditions such as rain and snow. The receipt of DBS signals in Alaska currently has the disadvantage of requiring subscribers to install larger satellite dishes (generally three to six feet in diameter) because of the weaker satellite signals currently available in northern latitudes, particularly in communities surrounding, and north of, Fairbanks. In addition, existing satellites have a relatively low altitude above the horizon when viewed from Alaska, making their signals subject to interference from mountains, buildings and other structures.

Two major companies, DirecTV and Echostar, are currently offering nationwide high-power DBS services. Recent launches by Echostar into more favorable western arc satellite positions have allowed them to offer service in the lower half of Alaska with antennas less than one meter in diameter. Recently enacted federal legislation establishes, among other things, a permanent compulsory copyright license that permits satellite carriers to retransmit local broadcast television signals to subscribers who reside inside the local television station's market. These companies have already begun transmitting local broadcast signals in certain major television markets and have announced their intention to expand this local television broadcast retransmission service to other domestic markets. With this legislation, satellite carriers become more competitive to cable communications system operators like us because they are now able to offer programming which more closely resembles what we offer. We are unable to predict the effects this legislation and these competitive developments might have on our business and operations.

Our cable television systems also compete with wireless program distribution services such as MMDS providers that use low-power microwave frequencies to transmit video programming over-the-air to subscribers. There are MMDS and multi-channel UHF operators who are authorized to provide or are providing broadcast and satellite programming to subscribers in areas served by several of our cable systems, including Anchorage, Fairbanks and Juneau. Additionally, the FCC has allocated frequencies in the 28 GHz band for a new multi-channel wireless video service similar to MMDS. Wireless operations have the disadvantage of requiring line-of-sight access, making their signals subject to interference from

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mountains, buildings and other structures, and are subject to interference from rain, snow and wind. Recently ACS purchased a controlling interest in a multi-channel UHF service that currently provides service in some portions of Anchorage and Fairbanks. Although they have currently stopped installing new customers, we believe they are preparing to offer digital service in both markets. MMDS is also offered by Alaska Wireless in Fairbanks and includes a wireless modem service. WanTV recently sold the Anchorage MMDS license to Sprint. This service is no longer accepting new customers. We are unable to predict whether wireless video services will have a material impact on our operations.

Recently, a number of companies in the lower-49 states, including telephone companies and ISP's, have asked local, state and federal governments to mandate that cable communications systems operators provide capacity on their cable infrastructure so that these companies and others may deliver Internet services directly to customers over cable facilities. In response, several local jurisdictions attempted to impose these capacity obligations on several cable communications operators. Various cable communications companies have initiated litigation challenging these municipal requirements. In addition, two antitrust lawsuits have been filed in federal courts alleging that certain cable communications companies have improperly refused to allow their cable facilities to be used by certain ISPs to serve their customers. In a 1999 report to Congress, the FCC declined to institute an administrative proceeding to examine this issue. We expect that the FCC, Congress, and state and local regulatory authorities will continue to consider actions in this area.

The deployment of Digital Subscriber Line technology, known as DSL, allows Internet access to subscribers at data transmission speeds equal to or greater than that of modems over conventional telephone lines. Numerous companies, including telephone companies, have introduced DSL service and certain telephone companies are seeking to provide high-speed broadband services, including interactive online services, without regard to present service boundaries and other regulatory restrictions. We are unable to predict the likelihood of success of competing online services offered by our competitors or what impact these competitive ventures may have on our business and operations.

Other new technologies may become competitive with non-entertainment services that cable television systems can offer. The FCC has authorized television broadcast stations to transmit textual and graphic information useful both to consumers and businesses. The FCC also permits commercial and non-commercial FM stations to use their subcarrier frequencies to provide non-broadcast services including data transmissions. The FCC established an over-the-air interactive video and data service that will permit two-way interaction with commercial and educational programming along with informational and data services. LECs and other common carriers also provide facilities for the transmission and distribution to homes and businesses of interactive computer-based services, including the Internet, as well as data and other non-video services. The FCC has conducted spectrum auctions for licenses to provide PCS. PCS will enable license holders, including cable operators, to provide voice and data services. We have acquired a license to provide PCS services in Alaska.

Advances in communications technology as well as changes in the marketplace are constantly occurring. We cannot predict the effect that ongoing or future developments might have on the telecommunications and cable television industries or on us specifically.

Cable television systems generally operate pursuant to franchises granted on a non-exclusive basis. The 1992 Cable Act gives local franchising authorities jurisdiction over basic cable service rates and equipment in the absence of "effective competition," prohibits franchising authorities from unreasonably denying requests for additional franchises and permits franchising authorities to operate cable systems. Well-financed businesses from outside the cable industry (such as the public utilities that own certain of the poles on which cable is attached) may become competitors for franchises or providers of competing services.

Our cable services sales efforts are primarily directed toward increasing the number of subscribers we serve, selling bundled services, and generating incremental revenues through product and feature upsale opportunities. We sell our cable services through telemarketing, direct mail advertising, door-to-door selling, and local media advertising.

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### Local Access Services

Industry. Use of the Internet and expansion in the use of LANs and WANs have generated an increased demand for access lines. In the home, the growing use of computers, faxes, and the Internet led to increases in access lines and usage. The emergence of new services, including digital cellular, personal communications services, interactive TV, and video dial tone, has created opportunities for growth in local loop services. These opportunities are also laying the foundation for a restructuring of the newly competitive local loop services market.

Emerging from the new competitive landscape are "data CLECs" who offer Internet access and data services to medium and large size businesses. They obtain interconnection agreements with ILECs for DSL-qualified unbundled network element loops. One loop, so qualified and equipped with appropriate access devices, enables the delivery of high speed (generally less than 768 kbs but sometimes faster rates), always-connected Internet access, LAN/WAN interconnectivity, and private line and private network circuits.

Cable telephony is still not prevalent, as the industry struggles with the quality of service and the increased delay (latency) surrounding deployment of first generation Voice over Internet Protocol technologies. The cable industry late in 1999 released its first Packet Cable standards that promise to support toll quality Internet protocol telephony.

Wireless local loop access technologies (other than fixed rate cellular telephone service), while developing for international applications, have not yet developed a significant market presence in the United States.

General. Our local access services division entered the local services market in Anchorage in 1997, providing services to residential, commercial, and government users. We can access approximately 93% of Anchorage area local loops from our collocated remote facilities and DLC installations.

Products. We initially began offering local exchange services in Anchorage during late September 1997. Our ILEC-collocated remote facilities that access the ILEC's unbundled network element loops and its DLC systems allows us to offer full featured, switched-based local service products to both residential

and commercial customers. In areas where we do not have access to loop facilities, we offer total service resale of the ILEC's local service.

Our package offerings are competitively priced and include popular features, such as:

- enhanced call waiting,
- caller ID on call waiting,
- anonymous call rejection,
- call forward busy,
- enhanced call waiting,
- follow me call,
- multi-distinctive ring,
- selective call forwarding,
- selective call rejection,
- speed calling,
- voice mail,
- non-listed number,
- caller ID,
- free caller ID box,
- call forwarding,
- call forward no answer,
- fixed call forwarding,
- intercom service forwarding,
- per line blocking,
- selective call acceptance,
- selective distinctive alert,
- three way calling,
- inside wire repair plan,
- non-published number

Facilities. During 1997 we installed a Lucent host switching system (5ESS). We also collocated six remote facilities beside or within the ILEC's local switching offices to access unbundled loop network elements and installed a DLC system beside a smaller, seventh ILEC wire center. These remote and DLC facilities are interconnected to the host switch via our diversely routed fiber optic links. During 1998, we expanded our capacity at each of the remote facilities to allow access to approximately 79,000 Anchorage loops. Additionally, we provided our own facilities-based services to over 100 of Anchorage's larger business customers through further expansion and deployment of SONET fiber transmission facilities, leased and HDSL T-1 facilities, and DLC facilities.

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Customers. We had approximately 45,100, 28,300 and 3,300 active lines in service from Anchorage subscribers to our local access services at December 31, 1999, 1998 and 1997, respectively. The 1999 line count consists of approximately 21,300 residential access lines and 23,800 business access lines, including 5,600 Internet service provider access lines. We ended 1999 with significant market share gains in all market segments, in particular in the business segment in which access lines increased by 67% and ISP lines increased by 294% as compared to December 31, 1998. Without an active media presence, we were able to gain residential market share, growing that market segment by 32% as compared to 1998. We estimate that our overall local access services market share exceeds 25%.

1999, 1998 and 1997 revenues derived from local access services totaled \$15.5 million, \$9.9 million and \$610,000, respectively, representing approximately 5.6%, 4.0% and 0.3% of our total revenues in 1999, 1998 and 1997, respectively. Approximately 750 additional lines were sold and awaiting connection at December 31, 1999.

Competition. In the local exchange services market, we believe that the 1996 Telecom Act, judicial decisions, and state legislative and regulatory developments will increase the likelihood that barriers to local exchange competition will be substantially reduced or removed. These initiatives include requirements that LECs negotiate with entities such as us to provide interconnection to the existing local telephone network, to allow the purchase, at cost-based rates, of access to unbundled network elements, to establish dialing parity, to obtain access to rights-of-way and to resell services offered by the ILECs.

LECs in Alaska outside of Anchorage have a "rural exemption" from some of their obligations until and unless the exemption is examined and not continued by the RCA. Certain pricing provisions of the FCC's Interconnection Decision implementing the interconnection portions of the 1996 Telecom Act have been challenged and were stayed by the U.S. Court of Appeals for the Eighth Circuit, on a jurisdictional basis. The United States Supreme Court, in February 1999, upheld the jurisdictional basis of the FCC's decisions, and has remanded the proceeding back to the Eighth Circuit for further proceedings. In addition the 1996 Telecom Act expressly prohibits any legal barriers to competition in intrastate or interstate communications service under state and local laws. The 1996 Telecom Act further empowers the FCC, after notice and an opportunity for comment, to preempt the enforcement of any statute, regulation or legal requirement that prohibits, or has the effect of prohibiting, the ability of any entity to provide any intrastate or interstate telecommunications service. You should see Part I, Item 1. Business, Regulation, franchise authorizations and tariffs for more information.

In the local exchange market we currently compete with an ACS subsidiary in Anchorage. In early 2001 we anticipate we will be competing with ACS subsidiaries in Fairbanks, Juneau, Fort Wainwright and Eielson Air Force Base (military bases near Fairbanks), and in North Pole. You should see Part I, Item 1. Business, Historical development of the Company's business during the past fiscal year - Local Access Services for more information. We also compete against AT&T in the Anchorage service area. AT&T offers local exchange service only to residential customers through total service resale. We expect further



competitors in the Anchorage, Fairbanks and Juneau marketplaces, as Alaska Fiber Star and DSInet have filed bonafide requests for interconnection with ACS. The Company expects competition from these latter entrants in the business customer telephony access, Internet access, DSL and private line markets. We believe our long-standing presence in Alaska and the strength of our brand (as well as ACS's) will make competitive entry difficult for these new entrants.

We received approval from the RCA in July 1999 to provide local exchange services in ACS's existing service areas in Fairbanks, Juneau, Ft Wainwright, Eielson AFB, and North Pole. We are currently involved in arbitration to define the terms of interconnection with ACS for entry to these markets and are expecting to conclude those proceedings in the third quarter of 2000. We continue to offer local exchange services to substantially all consumers in the Anchorage service area, primarily through our own facilities and unbundled local loops leased from ACS.

On June 30, 1999, the APUC was repealed by an act passed earlier in the year by the Alaska State Legislature and was immediately reconstituted as the RCA, combining the functions of the APUC and certain other oversight functions. The Governor of the state of Alaska appointed new commissioners as a result of this restructuring. Established within the commission is a communications carriers section that is tasked with developing, recommending, and administering policies and programs with respect to the regulation

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of rates, services, accounting, and facilities of communications common carriers within the state involving the use of wire, cable, radio, and space satellites.

We believe the new commission is generally more responsive to telecommunications issues brought to its attention and more supportive of competitive telecommunication regulatory policy.

The 1996 Telecom Act also provides ILECs with new competitive opportunities. We believe that we have certain advantages over these companies in providing telecommunications services, including awareness by Alaskan customers of the GCI brand-name, our facilities-based telecommunications network, and our prior experience in, and knowledge of, the Alaskan market. The 1996 Telecom Act provides that rates charged by ILECs for interconnection to the incumbent carrier's network are to be nondiscriminatory and based upon the cost of providing such interconnection, and may include a "reasonable profit," which terms are subject to interpretation by regulatory authorities. If ILECs charge us unreasonably high fees for interconnection to their networks, or significantly lower their retail rates for local exchange services, our local service business could be placed at a significant competitive disadvantage.

Our local services sales efforts are primarily directed toward increasing the number of commercial and small business subscribers we serve, selling bundled services, and generating incremental revenues through product and feature upsale opportunities. We sell our local services through telemarketing, direct mail advertising, and door-to-door selling.

#### Internet Services

Industry. The Internet continues to expand at a significant rate, with the number of sites almost doubling over the last several years. Industry analysts estimated that 90 million sites were connected to the Internet worldwide at the end of 1999. Current trends indicate that in a few years the Internet may become as commonplace as TV. Analysts predict that the amount of Internet traffic will likely continue to rise as fast as capacity allows for the foreseeable future. Voice over the Internet may have a major impact on business and the entire telecommunications industry in the future.

The use of Intranets has significantly increased, with an estimated 60 to 70 percent of US corporations using an Intranet. Current growth rates suggest that 138 million people worldwide will be connected from their desks to an in-house Intranet by 2001.

An Intranet allows information to be decentralized in an organization. It uses Internet-compatible standards, available on virtually any computer. An Intranet is also, by mainframe computer standards, fast and inexpensive to set up. This adds to its appeal, particularly for larger companies with complex legacy data systems.

Industry analysts believe that one of the key tools for business advantage over the next two years will be the Extranet. This is an Intranet (internal, secure, full of sensitive data) connected to trusted customers and suppliers. Implementing an Extranet creates the concept of the virtual enterprise, in which all the organizations in a supply chain integrate their systems and operations. This concept is not new, but has been achieved in the past using EDI on private networks. Extranets promise to remove many of the obstacles that have prevented firms from sharing their data (stock levels, production schedules, demand forecasts) with customers and suppliers. However, there are issues of standards, lack of consumer confidence and security.

Music is ideally suited for the digital world, with leading record companies and

music retailers now selling direct over the Internet. New compression algorithms and technology (such as MP3) allow consumers to purchase and download music of their choice to play on their personal computer, handheld device, or CD players. Technology is beginning to turn products into a service, delivered over the Internet. We expect this segment of the retail market to expand significantly. Copyright and related legal concerns are becoming more prevalent due to the ease in which electronic media can be distributed and copied.

Concerns about Internet-based commerce remain. One serious preoccupation is that an overloaded Internet might crash. However, capacity on the Internet continues to increase. Technology enables fiber to carry more data, and more cables and satellite channels are being introduced. In 1995, the world's entire telecom traffic amounted to a data rate of a terabit a second. Currently, a single optical fiber strand

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can carry three times that amount of data with lab research indicating that many times more capacity will be possible in the future.

Industry analysts expected 43.9 million American households to be able to access the Internet in 1999, equaling approximately 43% of the country. Online-shopping revenues were projected to increase in 1999 by 69%, to \$11.9 billion, while advertising revenues were expected to increase by 62%, to \$3.3 billion.

We believe major court decisions and legislative action will shape the worldwide Internet in 2000 and beyond, including:

- The impact of the U.S. vs. Microsoft antitrust trial,
- Possible recognition that traditional encryption regulation is obsolete,
- Minimum-regulation approaches to information privacy as a new consumer movement tries to use international privacy law to rein in the behavior of large corporations in the U.S. economy,
- The potential for continuing increases in inexperienced investors investing through online brokers and increased instances of investor losses that lead to arbitration claims against the brokers,
- The impact of more Internet patents preventing others from doing certain things, such as designing and maintaining certain types of Web sites,
- The legality of hyperlinking without permission,
- Pending re-introduction of database legislation in Congress that would create a new form of intellectual property in databases,
- Decisions regarding whether cryptographic source code is First Amendment speech, and hence exportable, or that no program is covered by the First Amendment,
- Renewed calls by the FBI and others for domestic controls of obscenity-related cryptography, and
- The development of rating and filtering systems outside the United States.

General. Our Internet services division entered the Internet services market in 1998, providing retail services to residential, commercial, and government users and providing wholesale carrier services to other ISPs. Cable network upgrades in the Anchorage area have allowed us to offer high-speed cable modem Internet access, the first of its kind in Alaska.

Products. We currently offer two types of Internet access for residential use: dial up Internet access and high-speed cable modem Internet access. Our initial residential high-speed cable modem Internet service offers up to 1024 kbps access speed as compared with up to 56 kbps access through standard copper wire modem access. We provide free 24-hour customer service and technical support via telephone or online. The entry level cable modem service also offers free data transfer up to five gigabytes per month and can be left connected 24-hours-a-day, 365-days-a-year, allowing for real-time information and e-mail access. Additional cable modem service packages tailored to both heavy residential and commercial Internet users are also available.

We believe cable modem services are the next generation of Internet access. This service is appealing to families, professionals who work-at-home, educators, and those involved in electronic commerce and people who enjoy interactive computer games. Cable modem access overcomes the limitations of slower dial-up service and the higher cost of dedicated Internet services and provides always-available, high-speed access to the Internet. Cable modems use our coaxial cable that provides cable television service, instead of the traditional ILEC copper wire. Coaxial cable has a much greater carrying capacity than telephone wire and can be used to simultaneously deliver both cable television and Internet access services.

We currently offer several Internet service packages for commercial use: Dial up access, T1 and fractional T1 leased line, frame relay and high-speed cable modem Internet access. Our business high-speed cable modem Internet service offers access speeds ranging from 256 kbps to 1024 kbps, free monthly data transfers of up to 25 gigabytes and free 24-hour customer service and technical support. Business services also include dedicated Internet access, a personalized web page, domain name services, and e-mail addressing.

We introduced significant new marketing campaigns in February and March 1999 featuring bundled residential and commercial Internet products. Additional

bandwidth was made available to our Internet segment through the Alaska United Project as previously described. The new Internet offerings are

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coupled with our long-distance and local services offerings and provide free basic Internet services if certain long-distance or local service plans are selected. Value-added Internet features are available for additional charges.

We provide Internet access for Alaska schools and health organizations using a platform including many of the latest advancements in technology. Services are delivered through a locally available circuit, our existing lines, and/or satellite earth stations.

Facilities. The Internet is an interconnected global public computer network of tens of thousands of packet-switched networks using the Internet protocol. The Internet is effectively a network of networks routing data throughout the world. We provide access to the Internet using a platform that includes many of the latest advancements in technology. The physical platform is concentrated in Anchorage and is extended into many remote areas of the state. Our Internet platform includes:

- Circuits connecting our Anchorage facilities to an Internet access point in Seattle through multiple, diversely routed networks.
- Routers on each end of the circuits to control the flow of data.
- Our Anchorage facility consists of a main router, a bank of servers that perform proxy and cache functions, database servers providing authentication and user demographic data, and access servers for dial-in users.
- SchoolAccess(TM) Internet service delivery to over 257 schools in rural Alaska is accomplished by three variations on primary delivery systems:
  - In communities where we have terrestrial interconnects or provide existing service over regional earth stations, we have configured intermediate distribution facilities. Schools that are within these service boundaries are connected locally to one of those facilities.
  - In communities where we have extended telecommunications services via our DAMA earth station program, SchoolAccess(TM) is provided via a satellite circuit to an intermediate distribution facility at the Eagle River Earth Station.
  - In communities or remote locations where we have not extended telecommunications services, SchoolAccess(TM) is provided via a dedicated (usually on premise) DAMA VSAT satellite station. The DAMA connects to an intermediate distribution facility located in Anchorage.

In all cases, Internet access is delivered to a router located at the service point. Our Internet management platform constantly monitors this router; continual communication is maintained with all of the routers in the network. The availability and quality of service, as well as statistical information on traffic loading, are continuously monitored for quality assurance. The management platform has the capability to remotely access the routers, permitting changes in router configuration without the need to physically be at the service point.

GCI.net offers a unique combination of innovative network design and aggressive performance management. The new Internet platform has received a certification that places it in the top one percent of all service providers worldwide and the only ISP in Alaska with such designation.

We operate and maintain what we believe is the largest, most reliable, and highest performance Internet network in the State of Alaska.

Competition. The Internet industry is intensely competitive, rapidly evolving and subject to constant technological change. Competition is based upon price and pricing plans, the types of services offered, customer service, billing services, perceived quality, reliability and availability. Although we believe we have the human and technical resources to pursue our strategy and compete effectively in this competitive environment, our success will depend upon our ability to profitably provide high quality, high value bundled services at prices generally competitive with, or lower than, those charged by our competitors.

As of December 31, 1999, we competed with more than 25 Alaska based Internet providers, and competed with other domestic, non-Alaska based providers that provide national service coverage. Several of the providers have substantially greater financial, technical and marketing resources than we have. We have, so far, successfully adjusted our pricing and marketing strategies to respond to competitors' pricing practices.

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Customers. We had approximately 48,300 and 7,200 active residential and commercial Internet subscribers at December 31, 1999 and 1998, respectively. 1999 and 1998 revenues derived from Internet services (including SchoolAccess(TM)) totaled \$9.1 million and \$6.1 million, respectively, representing approximately 3.3% and 2.5% of our total 1999 and 1998 revenues,

respectively.

Our Internet services sales efforts are primarily directed toward increasing the number of subscribers we serve, selling bundled services, and generating incremental revenues through product and feature upsale opportunities. We sell our Internet services through telemarketing, direct mail advertising, door-to-door selling, and local media advertising.

#### Environmental Regulations

We may undertake activities that, under certain circumstances may affect the environment. Accordingly, they are subject to federal, state, and local regulations designed to preserve or protect the environment. The FCC, the Bureau of Land Management, the U.S. Forest Service, and the National Park Service are required by the National Environmental Policy Act of 1969 to consider the environmental impact prior to the commencement of facility construction. We believe that compliance with such regulations has no material effect on our consolidated operations. The principal effect of our facilities on the environment would be in the form of construction of facilities and networks at various locations in Alaska and between Alaska and Seattle Washington. Our facilities have been constructed in accordance with federal, state and local building codes and zoning regulations whenever and wherever applicable. Some facilities may be on lands that may be subject to state and federal wetland regulation.

Uncertainty as to the applicability of environmental regulations is caused in major part by the federal government's decision to consider a change in the definition of wetlands. Most of our facilities are on leased property, and, with respect to all of these facilities, we are unaware of any violations of lease terms or federal, state or local regulations pertaining to preservation or protection of the environment.

Our Alaska United project consists, in part, of deploying land-based and undersea fiber optic cable facilities between Anchorage, Whittier, Valdez, and Juneau, Alaska, and Seattle, Washington. The engineered route passes over wetlands and other environmentally sensitive areas. We believe our construction methods used for buried cable have a very minimal impact on the environment. The agencies, among others, that are involved in permitting and oversight of our cable deployment efforts are the US Army Corps of Engineers, The National Marine Fisheries Service, US Fish & Wildlife, US Coast Guard, National Oceanic and Atmospheric Administration, Alaska Department of Natural Resources, and the Alaska Office of the Governor - Governmental Coordination. We are unaware of any violations of federal, state or local regulations or permits pertaining to preservation or protection of the environment.

In the course of operating the cable television systems, we have used various materials defined as hazardous by applicable governmental regulations. These materials have been used for insect repellent, locate paint and pole treatment, and as heating fuel, transformer oil, cable cleaner, batteries, and in various other ways in the operation of those systems. We do not believe that these materials, when used in accordance with manufacturer instructions, pose an unreasonable hazard to those who use them or to the environment.

#### Patents, Trademarks, Licenses, Certificates of Public Convenience and Necessity, and Military Franchises

We do not hold patents, franchises or concessions for telecommunications services or local access services. We do hold registered service marks for the terms SchoolAccess(TM), Free Fridays for Business(TM) and Unlimited Weekends(TM). The Communications Act of 1934 gives the FCC the authority to license and regulate the use of the electromagnetic spectrum for radio communication. We hold licenses through our long-distance services industry segment for our satellite and microwave transmission facilities for provision of long-distance services. We acquired a license for use of a 30-MHz block of spectrum for providing PCS services in Alaska. The PCS license has an initial duration of 10 years. We expect to renew the PCS license for an additional 10-year term under FCC rules. We acquired a LMDS license in 1998 for use of a 150-MHz block of spectrum in the 28 GHz Ka-band for providing wireless services. The LMDS license has

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an initial duration of 10 years. Within 10 years, licensees will be required to provide 'substantial service' in their service regions. Our operations may require additional licenses in the future.

Applications for transfer of control of 15 certificates of public convenience and necessity held by the acquired cable companies were approved in an RCA order dated September 23, 1996, with transfers to be effective on October 31, 1996. Such transfer of control allowed us to take control and operate the cable systems of the acquired cable companies located in Alaska. The approval of the transfer of these 15 certificates of public convenience and necessity is not required under federal law, with one area of limited exception. The cable companies operate in part through the use of several radio-band frequencies licensed through the FCC. These licenses were transferred to us prior to October 31, 1996.

We obtained consent of the military commanders at the military bases serviced by the acquired cable systems to the assignment of the respective franchises for those bases.

#### Regulation, Franchise Authorizations and Tariffs

The following summary of regulatory developments and legislation does not purport to describe all present and proposed federal, state, and local regulation and legislation affecting our businesses. Other existing federal and state regulations are currently the subject of judicial proceedings, legislative hearings and administrative proposals that could change, in varying degrees, the manner in which these industries operate. We cannot predict at this time the outcome of these proceedings, their impact on the industries in which we operate, or their impact on us.

Telecommunications Operations. The following is a summary of federal laws, regulations and tariffs, and a description of certain state and local laws pertaining to our telecommunications operations (long-distance, local access and wireless services).

General. We are subject to regulation by the FCC and by the RCA as a non-dominant provider of long-distance services. We file tariffs with the FCC for interstate and international long-distance services, and with the RCA for intrastate service. Such tariffs routinely become effective without intervention by the FCC, RCA or other third parties since we are a non-dominant carrier. We received approval from the RCA in February 1997 permitting us to provide local access services throughout ATU's (now ACS) existing service area. Military franchise requirements also affect our ability to provide telecommunications and cable television services to military bases.

The 1996 Telecom Act preempts state statutes and regulations that restrict the provision of competitive local telecommunications services. State commissions can, however, impose reasonable terms and conditions upon the provision of telecommunications service within their respective states. Because we are authorized to offer local access services in Anchorage, we are regulated as a CLEC by the RCA. In addition, we will be subject to other regulatory requirements, including certain requirements imposed by the 1996 Telecom Act on all LECs, which requirements include permitting resale of LEC services, number portability, dialing parity, and reciprocal compensation.

As a PCS and LMDS licensee, we are subject to regulation by the FCC, and must comply with certain buildout and other conditions of the license, as well as with the FCC's regulations governing the PCS and LMDS services. On a more limited basis, we may be subject to certain regulatory oversight by the RCA (e.g., in the areas of consumer protection), although states are not permitted to regulate the rates of PCS, LMDS and other commercial wireless service providers. PCS and LMDS licensees may also be subject to regulatory requirements of local jurisdictions pertaining to, among other things, the location of tower facilities.

1996 Telecom Act and Related Rulings. A key industry development was passage of the 1996 Telecom Act. The Act is intended by Congress to open up the marketplace to competition and has had a dramatic impact on the telecommunications industry. The intent of the legislation is to break down the barriers that have prevented three groups of companies, LECs, including RBOCs, long-distance carriers, and cable TV operators, from competing head-to-head with each other. The Act requires incumbent LECs to let new competitors into their business. It also requires incumbent LECs to open up their networks to ensure that

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new market entrants have a fair chance of competing. The bulk of the legislation is devoted to establishing the terms under which incumbent LECs must open up their networks.

Enactment of the bill immediately affected local exchange service markets by requiring states to authorize local exchange service competition. Competitors, including resellers, are able to market new bundled service packages to attract customers. Over the long term, the requirement that incumbent LECs unbundle access to their networks may lead to increased price competition. Local exchange service competition has not yet occurred in all markets on a national basis because interconnection arrangements are not yet in place in many areas. We have executed an interconnection agreement with ACS for the Anchorage market, and are arbitrating with ACS to develop agreements for the Juneau and Fairbanks markets. If we are unable to enter into, or experience a delay in obtaining, interconnection agreements, this inability or delay may materially and adversely affect our business and financial prospects.

The 1996 Telecom Act requires the FCC to establish rules and regulations to implement its local competition provisions. In August 1996, the FCC issued rules governing interconnection, resale, unbundled network elements, the pricing of those facilities and services, and the negotiation and arbitration procedures that would be utilized by states to implement those requirements. These rules rely on state public utilities commissions to develop the specific rates and procedures applicable to particular states within the framework prescribed by the FCC. These rules were vacated in part by a July 1997 ruling of the United

States Court of Appeals for the Eighth Circuit. On January 25, 1999, the United States Supreme Court issued an opinion upholding the authority of the FCC to establish rules, including pricing rules, to implement statutory provisions governing both interstate and intrastate services under the 1996 Telecom Act. The Court also upheld rules allowing carriers to select provisions from among different interconnection agreements approved by state commissions for the carriers' own agreements and a rule allowing carriers to obtain combinations of unbundled network elements.

The FCC affirmed in a report adopted on April 10, 1998, that Internet service providers would not be subject to regulation as telecommunications carriers under the 1996 Telecom Act. They thus will not be subject to universal service subsidies and other regulations. Further, in August 1998, the FCC proposed new rules that would allow ILECs to provide their own DSL services through separate affiliates that are not subject to ILEC regulation. On November 18, 1999, the FCC decided to require ILECs to share telephone lines with DSL providers, an action that may foster competition by allowing competitors to offer DSL services without their customers having to lease a second telephone line. Whether this development will be implemented in an effective way remains to be seen. Moreover, it is impossible to predict whether the FCC or Congress may change the rules under which these services are offered and, if such changes are made, the extent of the impact of such changes on our business.

The FCC regulates the fees that local telephone companies charge long distance companies for access to their local networks. These fees are commonly called access charges.

The FCC is currently considering various proposals, each supported by parts of both the local and long distance telephone industries that would restructure and likely reduce access charges. Changes in the access charge structure could fundamentally change the economics of some aspects of our business.

The Supreme Court vacated an FCC rule setting forth the specific unbundled network elements that ILECs must make available, finding that the FCC had failed to apply the appropriate statutory standard. On November 5, 1999, the FCC responded to the Court's decision by issuing a decision that maintains competitors' access to a wide variety of unbundled network elements. Six of the seven unbundled elements the FCC had originally required carriers to provide in its 1996 order implementing the 1996 Telecom Act remain available to competitors. These elements are loops, including loops used to provide high-capacity and advanced telecommunications services; network interface devices; local circuit switching, subject to restrictions in major urban markets; dedicated and shared transport; signaling and call-related databases; and operations support systems. The FCC removed access to operator and directory assistance service from the list of available unbundled network elements. In addition, the FCC added to its list certain unbundled network elements that were not at issue in 1996. These elements include subloops, or portions of loops, and dark fiber loops and transport. The FCC did not, however, require ILECs to unbundle facilities used to provide DSL service. The FCC did not decide, but sought additional information on, the question of whether carriers may combine certain unbundled network elements to provide special access

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services to compete with those provided by the ILECs. The ability to obtain unbundled network elements is an important element of our local access services business, and we believe that the FCC's actions in this area have generally been positive. However, we cannot predict the extent to which the existing rules will be sustained in the face of additional legal action and the scope of the rules that are yet to be crafted by the FCC.

Recurring and non-recurring charges for telephone lines and other unbundled network elements may increase based on the rates proposed by the ILECs and approved by the RCA from time to time, which could have a material adverse effect on the results of our operations. Moreover, because the cost-based methodology for determining these rates is still subject to judicial review, there is great uncertainty about how these rates will be determined in the future.

ACS, through subsidiary companies, provides local telephone services in Fairbanks and Juneau, Alaska. The ACS subsidiaries are classified as Rural Telephone Companies under the 1996 Telecom Act, which entitles them to an exemption of certain material interconnection terms of the 1996 Telecom Act, until such "rural exemption" is lifted by the State of Alaska. We requested that continuation of the "rural exemption" of the ACS subsidiaries relating to the Fairbanks and Juneau markets be examined. In January 1998, the RCA denied our request to terminate the rural exemption. The basis of the RCA's decision was primarily that various rulemaking proceedings (including Universal Service and access charge reform) must be completed before the exemption would be revoked. Those rulemaking proceedings have been largely completed.

On March 4, 1999, an Alaska Superior Court Judge determined that the APUC (now RCA) erred in reaching its decision to deny our request to provide full local telephone service in Fairbanks and Juneau, Alaska. This service would be provided in competition against PTI (now ACS), the existing monopoly provider.

Among other things, the Court instructed the APUC to correctly assign the burden of proof to PTI rather than us, and to decide on our specific requests to provide service in Fairbanks and Juneau based on criteria established in the 1996 Telecom Act. The Court stated "this must be accomplished cognizant of the intent of the 1996 Telecom Act to promote competition in the local market." The Court remanded the case back to the APUC for proceedings leading to their ruling. On July 1, 1999, the APUC ruled that the rural exemptions from local competition in Juneau, Fairbanks and North Pole have been terminated, which allows us to negotiate for unbundled elements for the provision of competitive local service in these markets. The ILEC appealed this decision, and on October 11, 1999 the RCA issued an order terminating rural exemptions in the Fairbanks and Juneau markets. We believe this decision is important to bring about the benefits of competition to other communities in Alaska. We will continue to negotiate with the ILEC for unbundled network elements for the provisioning of competitive local access services in these markets. We expect the RCA to approve an interconnection agreement for unbundled elements by September 2000.

A number of LECs, long-distance companies and others have appealed some or all of the FCC's orders. The effective date of the orders has not been delayed, but the appeals are expected to take a year or more to conclude. The impact of these FCC decisions on us is difficult to determine. Some BOCs have also challenged the 1996 Telecom Act restrictions on their entry into long-distance markets as unconstitutional. We are unable to predict the outcome of such rulemakings or litigation or the effect (financial or otherwise) of the 1996 Telecom Act and the rulemakings on us. The BOCs continue to challenge the substance of the FCC rules, arguing that the rules do not allow them to fully recover the money they spent building their networks.

Universal Service. In 1997, the FCC issued important decisions on universal service establishing new funding mechanisms for high-cost, low-income service areas to ensure that certain subscribers living in rural and high-cost areas, as well as certain low-income subscribers, continue to have access to telecommunications and information services at prices reasonably comparable to those charged for similar services in urban areas.

These mechanisms also are meant to foster the provision of advanced communications services to schools, libraries and rural health-care facilities. Under the rules adopted by the FCC to implement these requirements, we and all other telecommunications providers are required to contribute to a fund to support

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universal service. The amount that we contribute to the federal universal service subsidy will be based on our share of specified defined telecommunications end-user revenues.

The order established significant discounts to be provided to eligible schools and libraries for all telecommunications services, internal connections and Internet access. It also established support for rural health care providers so that they may pay rates comparable to those that urban health care providers pay for similar services. Industry-wide annual costs of the program, estimated at approximately \$2.3 billion, are to be funded out of the Universal Service Fund. The fund administrator on the basis of their interstate end-user revenues would assess local and long distance carriers' contributions to the education and health care funds. We began contributing to the new funds in 1998 and are allowed to recover our contributions through increased interstate charges.

Local Regulation. We may be required to obtain local permits for street opening and construction permits to install and expand fiber optic networks. Local zoning authorities often regulate our use of towers for microwave and other telecommunications sites. We also are subject to general regulations concerning building codes and local licensing. The 1996 Telecom Act requires that fees charged to telecommunications carriers be applied in a competitively neutral manner, but there can be no assurance that ILECs and others with whom we will be competing will bear costs similar to those we will bear in this regard.

Other Laws and Regulations. Although the foregoing discussion provides an overview of the major regulatory issues that confront our business, this discussion does not attempt to describe all current and proposed federal, state and local rules and initiatives affecting the telecommunications industry. Other federal and state laws and regulations are currently the subject of judicial proceedings and proposed additional legislation. In addition, some of the FCC's rules implementing the 1996 Telecom Act will be subject to further judicial review and could be altered or vacated by courts in the future. We cannot predict the ultimate outcome of any such further proceedings or legislation.

Cable Services. The following is a summary of federal laws and regulations materially affecting the growth and operation of the cable services industry and a description of certain state and local laws affecting our cable services business.

General. We are subject to federal and state regulation as a cable television operator pursuant to the 1934 Cable Act, the 1984 Cable Act and the 1992 Cable Act, as amended by the 1996 Telecom Act. The 1992 Cable Act significantly

expanded the scope of cable television regulation on an industry-wide basis by imposing rate regulation, carriage requirements for local broadcast stations, customer service obligations and other requirements. The 1992 Cable Act and the FCC's rules implementing that Act generally have increased the administrative and operational expenses and in certain instances required rate reductions for cable television systems and have resulted in additional regulatory oversight by the FCC and state or local authorities.

Principal responsibility for implementing the policies of the 1934, 1984 and 1992 Cable Acts and the 1996 Telecom Act is allocated between the FCC and state or local franchising authorities. The FCC and state regulatory agencies are required to conduct numerous rulemaking and regulatory proceedings to implement the 1996 Telecom Act, and such proceedings may materially affect the cable industry.

**Subscriber Rates.** The 1992 Cable Act authorized rate regulation for cable communications services and equipment in communities that are not subject to "effective competition," as defined by federal law. Most cable communications systems are now subject to rate regulation for basic cable service and equipment by local officials under the oversight of the FCC, which has prescribed detailed criteria for such rate regulation. The 1992 Cable Act also requires the FCC to resolve complaints about rates for CPS Tiers (other than programming offered on a per channel or per program basis, which programming is not subject to rate regulation) and to reduce any such rates found to be unreasonable. The 1996 Telecom Act eliminates the right of individuals to file CPS Tier rate complaints with the FCC and requires the FCC to issue a final order within 90 days after receipt of CPS Tier rate complaints filed by any franchising authority. The 1992 Cable Act limits the ability of cable television systems to raise rates for basic and certain cable programming services (collectively, the "Regulated Services").

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FCC regulations govern rates that may be charged to subscribers for Regulated Services. The FCC uses a benchmark methodology as the principal method of regulating rates for Regulated Services. Cable operators are also permitted to justify rates using a cost-of-service methodology, which contains a rebuttable presumption of an industry-wide 11.25% after tax rate of return on an operator's allowable rate base. Franchising authorities are empowered to regulate the rates charged for monthly basic service, for additional outlets and for the installation, lease and sale of equipment used by subscribers to receive the basic cable service tier, such as converter boxes and remote control units. The FCC's rules require franchising authorities to regulate these rates on the basis of actual cost plus a reasonable profit, as defined by the FCC. Cable operators required to reduce rates may also be required to refund overcharges with interest. The FCC has also adopted comprehensive and restrictive regulations allowing operators to modify their regulated rates on a quarterly or annual basis using various methodologies that account for changes in the number of regulated channels, inflation and increases in certain external costs, such as franchise and other governmental fees, copyright and retransmission consent fees, taxes, programming fees and franchise-related obligations. We cannot predict whether the FCC will modify these "going forward" regulations in the future.

Rate regulation of non-basic cable programming service tiers ended after March 31, 1999. The 1996 Telecom Act also modifies the uniform rate provision of the 1992 Cable Act by prohibiting regulation of nonpredatory bulk discount rates offered to subscribers in commercial and residential developments and permits regulated equipment rates to be computed by aggregating costs of broad categories of equipment at the franchise, system, regional or company level.

**Anti-Buy Through Provisions.** The 1992 Cable Act requires cable systems to permit subscribers to purchase video programming offered by the operator on a per channel or a per program basis without the necessity of subscribing to any tier of service, other than the basic cable service tier, unless the system's lack of addressable converter boxes or other technological limitations does not permit it to do so. The statutory exemption for cable systems that do not have the technological capability to offer programming in the manner required by the statute is available until a system obtains such capability, but not later than December 2002. The FCC may waive such time periods, if deemed necessary. Many of our systems do not have the technological capability to offer programming in the manner required by the statute and thus currently are exempt from complying with the requirement.

**Must Carry/Retransmission Consent.** The 1992 Cable Act contains broadcast signal carriage requirements that allow local commercial television broadcast stations to elect once every three years to require a cable system to carry the station, subject to certain exceptions, or to negotiate for "retransmission consent" to carry the station. A cable system generally is required to devote up to one-third of its activated channel capacity for the carriage of local commercial television stations whether pursuant to the mandatory carriage or retransmission consent requirements of the 1992 Cable Act. Local non-commercial television stations are also given mandatory carriage rights; however, such stations are not given the option to negotiate retransmission consent for the carriage of their signals by cable systems. Additionally, cable systems are required to



obtain retransmission consent for all distant commercial television stations (except for commercial satellite-delivered independent "superstations" such as WGN), commercial radio stations and certain low-power television stations carried by such systems.

The FCC has also initiated an administrative proceeding to consider the requirements, if any, for the mandatory carriage of digital television signals offered by local broadcasters. We are unable to predict the outcome of this proceeding or the impact any new carriage requirements might have on the operations of our cable systems.

Designated Channels. The Communications Act permits franchising authorities to require cable operators to set aside certain channels for public, educational and governmental access programming. The 1984 Cable Act also requires a cable system with 36 or more channels to designate a portion of its channel capacity for commercial leased access by third parties to provide programming that may compete with services offered by the cable operator. The FCC has adopted rules regulating: (i) the maximum reasonable rate a cable operator may charge for commercial use of the designated channel capacity; (ii) the terms and conditions for commercial use of such channels; and (iii) the procedures for the expedited resolution of disputes concerning rates or commercial use of the designated channel capacity.

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Franchise Procedures. The 1984 Cable Act affirms the right of franchising authorities (state or local, depending on the practice in individual states) to award one or more franchises within their jurisdictions and prohibits non-grandfathered cable systems from operating without a franchise in such jurisdictions. The 1992 Cable Act encourages competition with existing cable systems by (i) allowing municipalities to operate their own cable systems without franchises; (ii) preventing franchising authorities from granting exclusive franchises or from unreasonably refusing to award additional franchises covering an existing cable system's service area; and (iii) prohibiting (with limited exceptions) the common ownership of cable systems and collocated MMDS or SMATV systems. The FCC has relaxed its restrictions on ownership of SMATV systems to permit a cable operator to acquire SMATV systems in the operator's existing franchise area so long as the programming services provided through the SMATV system are offered according to the terms and conditions of the cable operator's local franchise agreement. The 1996 Telecom Act provides that the cable/SMATV and cable/MMDS cross-ownership rules do not apply in any franchise area where the operator faces "effective competition" as defined by federal law.

The Cable Acts also provide that in granting or renewing franchises, local authorities may establish requirements for cable-related facilities and equipment, but not for video programming or information services other than in broad categories. The Cable Acts limit the payment of franchise fees to 5% of revenues derived from cable operations and permit the cable operator to obtain modification of franchise requirements by the franchise authority or judicial action if warranted by changed circumstances. A federal appellate court held that a cable operator's gross revenue includes all revenue received from subscribers, without deduction, and overturned an FCC order which had held that a cable operator's gross revenue does not include money collected from subscribers that is allocated to pay local franchise fees. We cannot predict the ultimate resolution of these matters. The 1996 Telecom Act generally prohibits franchising authorities from (i) imposing requirements in the cable franchising process that require, prohibit or restrict the provision of telecommunications services by an operator, (ii) imposing franchise fees on revenues derived by the operator from providing telecommunications services over its cable system, or (iii) restricting an operator's use of any type of subscriber equipment or transmission technology.

The 1984 Cable Act contains renewal procedures designed to protect incumbent franchisees against arbitrary denials of renewal. The 1992 Cable Act made several changes to the renewal process that could make it easier for a franchising authority to deny renewal. Moreover, even if the franchise is renewed, the franchising authority may seek to impose new and more onerous requirements such as significant upgrades in facilities and services or increased franchise fees as a condition of renewal. Similarly, if a franchising authority's consent is required for the purchase or sale of a cable system or franchise, such authority may attempt to impose more burdensome or onerous franchise requirements in connection with a request for such consent. Historically, franchises have been renewed for cable operators that have provided satisfactory services and have complied with the terms of their franchises. We believe that we have generally met the terms of our franchises and have provided quality levels of service. We anticipate that our future franchise renewal prospects generally will be favorable.

Various courts have considered whether franchising authorities have the legal right to limit the number of franchises awarded within a community and to impose certain substantive franchise requirements (e. g. access channels, universal service and other technical requirements). These decisions have been inconsistent and, until the US Supreme Court rules definitively on the scope of cable operators' First Amendment protections, the legality of the franchising

process generally and of various specific franchise requirements is likely to be in a state of flux.

Ownership Limitations. Pursuant to the 1992 Cable Act, the FCC adopted rules prescribing national subscriber limits. While a federal district court has declared these limitations to be unconstitutional and delayed its enforcement, the FCC has reconsidered its cable ownership regulations and (i) reaffirmed its 30% nationwide subscriber ownership limit, but maintained its voluntary stay on enforcement of that regulation pending further court action, (ii) reaffirmed its subscriber ownership information reporting requirements, and (iii) modified its attribution rules that identify when the ownership or management by us or third parties of other communications businesses, including cable systems, television broadcast stations and local telephone companies, may be imputed to us for purposes of determining our compliance with the FCC's ownership restrictions.

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Also pending on appeal is a challenge to the statutory and FCC regulatory limitations on the number of channels that can be occupied on a cable system by a video programmer in which a cable operator has an attributable ownership interest. We do not expect the outcome of these judicial and regulatory proceedings or the impact of any ownership restrictions to have a material impact on our business and operations.

The 1996 Telecom Act generally prohibits us from owning or operating a SMATV or wireless cable system in any area where we provide franchised cable service. We may, however, acquire and operate SMATV systems in our franchised service areas if the programming and other services provided to SMATV subscribers are offered according to the terms and conditions of our franchise agreement.

The 1996 Telecom Act eliminated the statutory prohibition on the common ownership, operation or control of a cable system and a television broadcast station in the same market. While the FCC has eliminated its regulations that precluded the cross-ownership of a national broadcasting network and a cable system, it has not yet completed its review of other regulations that prohibit the common ownership of other broadcasting interests and cable systems in the same geographical areas.

LEC Ownership of Cable Systems. The 1996 Telecom Act made far-reaching changes in the regulation of LECs that provide cable services. The 1996 Telecom Act eliminated federal legal barriers to competition in the local telephone and cable communications businesses, preempted legal barriers to competition that previously existed in state and local laws and regulations, and set basic standards for relationships between telecommunications providers. The 1996 Telecom Act eliminated the statutory telephone company/cable television cross-ownership prohibition, thereby allowing LECs to offer video services in their telephone service areas. LECs may provide service as traditional cable operators with local franchises or they may opt to provide their programming over unfranchised "open video systems," subject to certain conditions, including, but not limited to, setting aside a portion of their channel capacity for use by unaffiliated program distributors on a non-discriminatory basis. The 1996 Telecom Act generally limits acquisitions and prohibits certain joint ventures between LECs and cable operators in the same market.

A federal appellate court overturned various parts of the FCC's open video rules, including the FCC's preemption of local franchising requirements for open video operators. The FCC has modified its open video rules to comply with the federal court's decision, but we are unable to predict the impact these rule modifications may have on our business and operations.

Pole Attachment. The Communications Act requires the FCC to regulate the rates, terms and conditions imposed by public utilities for cable systems' use of utility pole and conduit space unless state authorities can demonstrate that they adequately regulate pole attachment rates. In the absence of state regulation, the FCC administers pole attachment rates on a formula basis. In some cases, utility companies have increased pole attachment fees for cable systems that have installed fiber optic cables and that are using such cables for the distribution of non-video services.

The FCC has concluded that, in the absence of state regulation, it has jurisdiction to determine whether utility companies have justified their demand for additional rental fees and that the Communications Act does not permit disparate rates based on the type of service provided over the equipment attached to the utility's pole. The FCC's existing pole attachment rate formula, which may be modified by a pending rulemaking, governs charges for utilities for attachments by cable operators providing only cable services. The 1996 Telecom Act and the FCC's implementing regulations modify the current pole attachment provisions of the Communications Act by immediately permitting certain providers of telecommunications services to rely upon the protections of the current law and by requiring that utilities provide cable systems and telecommunications carriers with nondiscriminatory access to any pole, conduit or right-of-way controlled by the utility.

The FCC's current rate formula, which is being reevaluated by the FCC, governs the maximum rate certain utilities may charge for attachments to their poles and

conduit by cable operators providing only cable services and, until 2001, by certain companies providing telecommunications services. The FCC also adopted a second rate formula that will be effective in 2001 and will govern the maximum rate certain utilities may charge for attachments to their poles and conduit by companies providing telecommunications services, including cable operators. Several parties have requested the FCC to reconsider its new regulations and several parties have challenged the new rules in court. A federal appellate court recently

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upheld the constitutionality of the new statutory provision that requires utilities provide cable systems and telecommunications carriers with nondiscriminatory access to any pole, conduit or right-of-way controlled by the utility. We are unable to predict the outcome of the legal challenge to the FCC's new regulations or the ultimate impact any revised FCC rate formula or any new pole attachment rate regulations might have on our business and operations.

Other Statutory Provisions. The 1992 Cable Act, the 1996 Telecom Act and FCC regulations preclude any satellite video programmer affiliated with a cable company, or with a common carrier providing video programming directly to its subscribers, from favoring an affiliated company over competitors and requires such programmers to sell their programming to other multichannel video distributors. These provisions limit the ability of program suppliers affiliated with cable companies or with common carriers providing satellite-delivered video programming directly to their subscribers to offer exclusive programming arrangements to their affiliates. In December 1997, the FCC initiated a rulemaking to address a number of possible changes to its program access rules. Among the issues on which the FCC has sought comment is whether the FCC has jurisdiction to extend its program access rules to terrestrially delivered programming, and if it does have such jurisdiction, whether it should expand the rules in this fashion. This rulemaking is pending at the FCC.

The 1992 Cable Act requires cable operators to block fully both the video and audio portion of sexually explicit or indecent programming on channels that are primarily dedicated to sexually oriented programming or alternatively to carry such programming only at "safe harbor" time periods currently defined by the FCC as the hours between 10 p. m. to 6 a. m. A three-judge federal district court determined that this provision was unconstitutional. The United States Supreme Court is currently reviewing the lower court's ruling. The Communications Act also includes provisions, among others, concerning horizontal and vertical ownership of cable systems, customer service, subscriber privacy, marketing practices, equal employment opportunity, regulation of technical standards and equipment compatibility.

Other FCC Regulations. The FCC revised its cable inside wiring rules to provide a more specific procedure for the disposition of internal cable wiring that belongs to an incumbent cable operator that is forced to terminate its cable services in a MDU building by the building owner. The FCC is also considering additional rules relating to MDU inside wiring that, if adopted, may disadvantage incumbent cable operators. The FCC has various rulemaking proceedings pending that will implement the 1996 Telecom Act; it also has adopted regulations implementing various provisions of the 1992 Cable Act and the 1996 Telecom Act that are the subject of petitions requesting reconsideration of various aspects of its rulemaking proceedings. Other FCC regulations covering such areas as equal employment opportunity, syndicated program exclusivity, network program non-duplication, closed captioning of video programming, registration of cable systems, maintenance of various records and public inspection files, microwave frequency usage, origination cablecasting and sponsorship identification, antenna structure notification, marking and lighting, carriage of local sports broadcast programming, application of rules governing political broadcasts, limitations on advertising contained in non-broadcast children's programming, consumer protection and customer service, indecent programming, programmer access to cable systems, programming agreements, technical standards, consumer electronics equipment compatibility and DBS implementation. The FCC has the authority to enforce its regulations through the imposition of substantial fines, the issuance of cease and desist orders and/or the imposition of other administrative sanctions, such as the revocation of FCC licenses needed to operate certain transmission facilities often used in connection with cable operations.

The FCC has ongoing rulemaking proceedings that may change its existing rules or lead to new regulations. We are unable to predict the impact that any further FCC rule changes may have on our business and operations. Other bills and administrative proposals pertaining to cable communications have previously been introduced in Congress or have been considered by other governmental bodies over the past several years. It is probable that Congress and other governmental bodies will make further attempts to regulate cable communications services.

Copyright. Cable communications systems are subject to federal copyright licensing covering carriage of television and radio broadcast signals. In exchange for filing certain reports and contributing a percentage of their revenues to a federal copyright royalty pool, cable operators can obtain blanket permission to retransmit copyrighted material on broadcast signals. The nature and amount of future payments for

broadcast signal carriage cannot be predicted at this time. In a report to Congress, the Copyright Office recommended that Congress make major revisions of both the cable television and satellite compulsory licenses to make them as simple as possible to administer, to provide copyright owners with full compensation for the use of their works, and to treat every multichannel video delivery system the same, except to the extent that technological differences or differences in the regulatory burdens placed upon the delivery system justify different copyright treatment. The possible simplification, modification or elimination of the compulsory copyright license is the subject of continuing legislative review. The elimination or substantial modification of the cable compulsory license could adversely affect our ability to obtain suitable programming and could substantially increase the cost of programming that remains available for distribution to our subscribers. We cannot predict the outcome of this legislative activity.

Our cable communications systems often utilize music in the programs we provide to subscribers including local advertising, local origination programming and pay-per-view events. The right to use this music is controlled by music performance rights societies who negotiate on behalf of their copyright owners for license fees covering each performance. The cable industry and one of these societies have agreed upon a standard licensing agreement covering the performance of music contained in programs originated by cable operators and in pay-per-view events. Negotiations on a similar licensing agreement are in process with another music performance rights organization. Rate courts established by a federal court exist to determine appropriate copyright coverage and payments in the event the parties fail to reach a negotiated settlement. We are unable to predict the outcome of these proceedings or the amount of any license fees we may be required to pay for the use of music. We do not believe that the amount of such fees will be significant to our financial position, results of operations or liquidity.

State and Local Regulation. Because our cable communications systems use local streets and rights-of-way, our systems are subject to state and local regulation. Cable communications systems generally are operated pursuant to non-exclusive franchises, permits or licenses granted by a municipality or other state or local government entity. Franchises generally are granted for fixed terms and in many cases are terminable if the franchisee fails to comply with material provisions. The terms and conditions of franchises vary materially from jurisdiction to jurisdiction. Each franchise generally contains provisions governing cable service rates, franchise fees, franchise term, system construction and maintenance obligations, system channel capacity, design and technical performance, customer service standards, franchise renewal, sale or transfer of the franchise, territory of the franchisee, indemnification of the franchising authority, use and occupancy of public streets and types of cable services provided. The 1992 Cable Act immunizes franchising authorities from monetary damage awards arising from regulation of cable communications systems or decisions made on franchise grants, renewals, transfers and amendments.

Internet Operations. The following is a summary of federal laws, regulations and tariffs, and a description of certain state and local laws pertaining to our Internet operations.

With significant growth in Internet activity and commerce over the past several years the FCC and other regulatory bodies have been challenged to develop new models that allow them to achieve the public policy goals of competition and universal service. Many aspects of regulation and coordination of Internet activities and traffic are evolving and are facing unclear regulatory futures. Changes in regulations in the future will have a significant impact on ISPs, Internet commerce and Internet services.

The Internet has been able to grow and develop outside the existing regulatory structure because the FCC has made conscious decisions to limit the application of its rules. The federal government's efforts have been directed away from burdening the Internet with regulation. ISPs and other companies in the Internet industry have not been required to gain regulatory approval for their actions. The 1996 Telecom Act adopts such a position. The 1996 Act states that it is the policy of the United States "to preserve the vibrant and competitive free market that presently exists for the Internet and other interactive computer services, unfettered by Federal or State regulation."

Regulatory policy approaches toward the Internet have focused on several areas: avoiding unnecessary regulation, questioning the applicability of traditional rules, Internet governance (such as the allocation of domain names), intellectual property, network reliability, privacy, spectrum policy, standards, security, and international regulation.

Government may influence the evolution of the Internet in many ways, including directly regulating, participating in technical standards development, providing funding, restricting anti-competitive behavior by dominant firms, facilitating industry cooperation otherwise prohibited by antitrust laws, promoting new

technologies, encouraging cooperation between private parties, representing the United States in international intergovernmental bodies, and large-scale purchasing of services.

There are many ways Internet growth could be negatively impacted which may require future regulation and oversight. Moving toward proprietary standards or closed networks would reduce the degree to which new services could leverage the existing infrastructure. The absence of competition in the ISP market, or the telecommunications infrastructure market, could reduce incentives for innovation. Excessive or misguided government intervention could distort the operation of the marketplace, and lead companies to expend valuable resources working through the regulatory process. Insufficient government involvement may also, however, have negative consequences. Some issues may require a degree of central coordination, even if only to establish the initial terms of a distributed, locally-controlled system. The end result, in the absence of collective action, may be an outcome that no one favors. In addition, the failure of the federal government to identify Internet-related areas that should not be subject to regulation leaves open opportunities for state, local, or international bodies to regulate excessively and/or inconsistently.

There is no one entity or organization that governs the Internet. Each facilities-based network provider that is interconnected with the global Internet controls operational aspects of their own network. Certain functions, such as domain name routing and the definition of the TCP/IP protocol, are coordinated by an array of quasi-governmental, intergovernmental, and non-governmental bodies. The United States government, in many cases, has handed over responsibilities to these bodies through contractual or other arrangements.

In other cases, entities have emerged to address areas of need such as the Internet Society ("ISOC"), a non-profit professional society founded in 1992. ISOC organizes working groups and conferences, and coordinates some of the efforts of other Internet administrative bodies. The Internet Engineering Task Force ("IETF"), an open international body mostly comprised of volunteers, is primarily responsible for developing Internet standards and protocols. The work of the IETF is coordinated by the Internet Engineering Steering Group, and the Internet Architecture Board, which are affiliated with ISOC. The Internet Assigned Numbers Authority handles Internet addressing matters under a contract between the Department of Defense and the Information Sciences Institute at the University of Southern California.

The legal authority of any of these bodies is unclear. Most of the underlying architecture of the Internet was developed under the auspices, directly or indirectly, of the United States government. The government has not, however, defined whether it retains authority over Internet management functions, or whether these responsibilities have been delegated to the private sector. The degree to which any existing body can lay claim to representing "the Internet community" is also unclear. Membership in the existing Internet governance entities is drawn primarily from the research and technical communities.

The 1996 Telecom Act provides little direct guidance as to whether the FCC has authority to regulate Internet-based services. Section 223 concerns access by minors to obscene, harassing, and indecent material over the Internet and other interactive computer networks, and sections 254, 706, and 714 address mechanisms to promote the availability of advanced telecommunications services, possibly including Internet access. Section 230 states a policy goal "to preserve the vibrant and competitive free market that presently exists for the Internet and other interactive computer services, unfettered by Federal or State regulation." None of these sections, however, specifically addresses the FCC's jurisdiction.

Nothing in the 1996 Telecom Act expressly limits the FCC's authority to regulate services and facilities connected with the Internet, to the extent that they are covered by more general language in any section of the Act. Moreover, it is not clear what such a limitation would mean even if it were adopted. The Communications Act directs the FCC to regulate "interstate and foreign commerce in communication by wire and radio," and the FCC and state public utility commissions indisputably regulate the rates and conditions under which ISPs purchase services and facilities from telephone companies. Given the absence of clear statutory guidance, the FCC must determine whether or not it has the authority or the obligation to exercise regulatory jurisdiction over specific Internet-based activities. The FCC may also decide whether

to forebear from regulating certain Internet-based services. Forbearance allows the FCC to decline to adopt rules that would otherwise be required by statute. Under section 401 of the 1996 Telecom Act, the FCC must forbear if regulation would not be necessary to prevent anticompetitive practices and to protect consumers, and forbearance would be consistent with the public interest. Finally, the FCC could consider whether to preempt state regulation of Internet services that would be inconsistent with achievement of federal goals.

The FCC has not attempted to regulate the companies that provide the software and hardware for Internet telephony, or the access providers that transmit their data, as common carriers or telecommunications service providers. In March 1996, America's Carriers Telecommunication Association ("ACTA"), a trade association

primarily comprised of small and medium-size interexchange carriers, filed a petition with the FCC asking the FCC to regulate Internet telephony. ACTA argues that providers of software that enables real-time voice communications over the Internet should be treated as common carriers and subject to the regulatory requirements of Title II. The FCC has sought comment on ACTA's request. Other countries are considering similar issues.

The FCC has not considered whether any of the rules that relate to radio and television broadcasters should also apply to analogous Internet-based services. The vast majority of Internet traffic today travels over wire facilities, rather than the radio spectrum. As a policy matter, however, a continuous, live, generally-available music broadcast over the Internet may appear similar to a traditional radio broadcast, and the same arguments may be made about streaming video applications. The FCC will need to consider the underlying policy principles that, in the language of the Act and in FCC decisions, have formed the basis for regulation of the television and radio broadcast industries.

The FCC does not regulate the prices charged by ISPs or Internet backbone providers. However, the vast majority of users connect to the Internet over facilities of existing telecommunications carriers. Those telecommunications carriers are subject to varying levels of regulation at both the federal and the state level. Thus, regulatory decisions exercise a significant influence over the economics of the Internet market. Economics is expected to drive the development of both the Internet and of other communications technologies.

Internet access is understood to be an enhanced service under FCC rules; therefore ISPs are treated as end users, rather than carriers, for purposes of the FCC's interstate access charge rules. This distinction was created when the FCC established the access charge system in 1983. Thus, when ISPs purchase lines from LECs, the ISPs buy those lines under the same tariffs that any business customer would use -- typically voice grade measured business lines or 23-channel ISDN primary rate interface (PRI). Although these services generally involve a per-minute usage charge in addition to a monthly fee, the usage charge is assessed only for outbound calls. ISPs, however, exclusively use these lines to receive calls from their customers, and thus effectively pay flat monthly rates. By contrast, IXCs that interconnect with LECs are considered carriers, and thus are required to pay interstate access charges for the services they purchase. Most of the access charges that carriers pay are usage-sensitive in both directions. Thus, IXCs are assessed per-minute charges for both originating and terminating calls. The FCC concluded in the Local Competition Order that the rate levels of access charges appear to significantly exceed the incremental cost of providing these services. The FCC in December 1996 launched a comprehensive proceeding to reform access charges in a manner consistent with economic efficiency and the development of local competition.

The revenue effects of Internet usage today depend to a significant extent on the structure of state tariffs. Internet usage generates less revenue for LECs in states where flat local service rates have been set low, with compensating revenues in the form of per-minute intrastate toll charges. Because ISPs only receive local calls, they do not incur these usage charges. By contrast, in states where flat charges make up a higher percentage of LEC revenues, ISPs will have a less significant revenue effect. ISP usage is also affected by the relative pricing of services such as ISDN Primary Rate Interface (PRI), frame relay, and fractional T-1 connections, which are alternatives to analog business lines. Prices for these services, and the price difference on a per-voice-channel basis between the options available to ISPs, vary widely across different states. In many cases, tariffs for these and other data services are based on assumptions that do not reflect the realities of the Internet access market today. The scope of local calling areas also affects the architecture of Internet access services. In states with larger unmeasured local calling areas, ISPs need fewer POPs in order to serve the same customers through a local call.

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We are presently unable to determine what the impact of potential Internet regulatory actions and decisions will be on our liquidity, results of operations and cash flows.

Financial information about our foreign and domestic operations and export sales Although we have several agreements to help originate and terminate international toll traffic, we do not have foreign operations or export sales. We conduct our operations throughout the western contiguous United States, Alaska and Hawaii and believe that any subdivision of our operations into distinct geographic areas would not be meaningful. Revenues associated with international toll traffic were \$4.2 million, \$7.0 million and \$7.6 million for the years ended December 31, 1999, 1998 and 1997, respectively.

#### Seasonality

Our long-distance revenues have historically been highest in the summer months as a result of temporary population increases attributable to tourism and increased seasonal economic activity such as construction, commercial fishing, and oil and gas activities. Our cable television revenues, on the other hand, are higher in the winter months because consumers tend to watch more television, and spend more time at home, during these months. Our local service and Internet

operations are not expected to exhibit significant seasonality, with the exception of SchoolAccess(TM) Internet services that are reduced during the summer months. Our ability to implement construction projects is also reduced during the winter months because of cold temperatures, snow and short daylight hours.

#### Customer-sponsored research

We have not expended material amounts during the last three fiscal years on customer-sponsored research activities.

#### Backlog of Orders and Inventory

As of December 31, 1999 and 1998, our long-distance services segment had a backlog of equipment sales orders of approximately \$101,000 and \$202,000, respectively. The decrease in backlog as of December 31, 1999 can be attributed primarily to reduced equipment sales activity at the end of the fourth quarter in 1999 as compared to 1998. Many of our customers delayed equipment orders so that their systems would be stable at the turn of the century, resulting in reduced sales activity and order backlog. We expect that all of the orders in backlog at the end of 1999 will be delivered during 2000.

#### Geographic Concentration and Alaska Economy

We offer voice and data telecommunication and video services to customers primarily throughout Alaska. As a result of this geographic concentration, growth of our business and our operations depend upon economic conditions in Alaska. The economy of Alaska is dependent upon the natural resource industries, and in particular oil production, as well as investment earnings, tourism, government, and United States military spending. Any deterioration in these markets could have an adverse impact on us. Oil revenues are now the third largest source of state revenues, following investment income and federal funds. Alaska's investment earnings will supply 33% of the state's projected revenues in fiscal 2001, with federal funding comprising 27% of the total and oil revenues 24% of the total. Much of the investment income and all of the federal funding is restricted or dedicated for specific purposes, however, leaving oil revenues as the primary funding source (75%) of general operating expenditures.

The volume of oil transported by the TransAlaska Oil Pipeline System over the past 20 years has been as high as 2.0 million barrels per day in fiscal 1988. Production has begun to decline in recent years and is presently down 40% from the fiscal 1988 level, and down 25% from the fiscal 1997 level. The two largest producers of oil in Alaska (the primary users of the TransAlaska Oil Pipeline System) continue to explore, develop and produce new oil fields and to enhance recovery from existing fields to offset the decline in production from the Prudhoe Bay field. Both companies have invested large sums of money in developing and implementing oil recovery techniques at the Prudhoe Bay field and other nearby fields. The state now forecasts a temporary reversal of the production rate decline and a slight increase in the production rate during the period from fiscal 2003 to 2005. This forecasted increase is attributed to new developments at the Alpine, Liberty and Northstar fields, as well as new production from Prudhoe Bay and other fields.

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Market prices for North Slope oil declined to below \$10 per barrel in 1998, and averaged \$12.70 in fiscal 1999, well below the average price used by the state to budget its oil related revenues. The prices have since increased to over \$30 per barrel in March 2000, with a year-to-date fiscal 2000 average price per barrel of \$22.78. Over the past decade, the rolling 60-month average price for North Slope crude oil has been between \$16.39 and \$17.74 per barrel 95 percent of the time.

The state's forecast for fiscal 2001 shows the price for North Slope crude averaging \$18.28 and then declining to the low-\$18 and high-\$17 range for the next five years. Recent higher prices are largely due to the Organization of Petroleum Exporting Countries ("OPEC") March 1999 agreement to cut production to force prices higher. The OPEC agreement called for production cuts from January 1999 levels of a little more than 2 million barrels per day. Although OPEC trimmed output by about 1.75 million barrels, or nearly 85 percent of targeted reductions, October 1999 OPEC production has increased by 400,000 barrels per day. This reduces current compliance to 65 percent of targeted cuts. History suggests that market forces lead to lower prices when oil sells for more than \$20 per barrel. What is uncertain is when and how fast the correction will occur. The response of non-OPEC production to higher prices is uncertain. The production policy of OPEC and its ability to continue to act in concert represents a key uncertainty in the state's revenue forecast.

The state of Alaska maintains the Constitutional Budget Reserve Fund that is intended to fund budgetary shortfalls. Based on the state's oil price and production forecasts, and considering the state's other revenues, the Alaska Department of Revenue expects the state will need to draw less than \$500 million from the Constitutional Budget Reserve Fund in Fiscal 2000 and about \$700 million in Fiscal 2001 to balance the state's budget, down substantially from the \$1 billion fiscal 2000 draw expected in their spring 1999 forecast. If the state's current projections are realized, the Constitutional Budget Reserve Fund will be depleted in 2004. If the fund is depleted, aggressive state action will be necessary to increase revenues and reduce spending in order to balance its

budget. The Governor of the State of Alaska and the Alaska Legislature are pursuing cost cutting and revenue enhancing measures.

Oil companies and service providers announced cost cutting measures to offset a portion of the declining oil revenues in 1999, resulting in a reduction of oil industry jobs of over 1,400. Projects that are underway are reportedly not affected by the cutbacks, however BP Amoco p.l.c. ("BP" or "BP Amoco") did notify state officials that it would delay its exploration of the Genesee test site east of Prudhoe.

Although oil prices have a substantial effect on Alaska's economy, analysts believe that tourism, air cargo, and service sectors are strong enough to offset a portion of the expected downturn. These industries have helped offset the prevailing pattern of oil industry downsizing that has occurred during much of the last several years. Three other factors that support Alaska's economy are the healthy national economy, lower interest rates, and low inflation. We expect construction to remain strong over the next few years. \$1.77 billion of federal money is expected to be distributed to the state of Alaska for highways and other federally supported projects in fiscal 2000.

Effective March 1997, the State of Alaska passed new legislation relaxing state oil royalties with respect to marginal oil fields that the oil companies claim would not be economic to develop otherwise. No assurance can be given that oil companies doing business in Alaska will be successful in discovering new fields or further developing existing fields which are economic to develop and produce oil with access to the pipeline or other means of transport to market, even with the reduced level of royalties.

BP Amoco announced in April 1999 its intention to purchase ARCO for \$26.8 billion. BP Amoco and ARCO together reportedly own approximately 70 percent of the Alaska North Slope oil fields and the company that operates the Trans-Alaska Pipeline System.

On February 2, 2000 the FTC voted to fight in federal court to block BP Amoco's purchase of ARCO citing their concern over:

- the reduction in competition in the sale of Alaska oil to West Coast independent refineries;
- the reduction in competition in Alaska lease sales, thus reducing state and federal government revenue from such sales; and
- possible manipulation of futures market prices by the resulting company.

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On March 15, 2000 BP Amoco and ARCO announced that they have agreed to sell ARCO's Alaskan businesses to Phillips Petroleum Co. ("Phillips") for \$7 billion. The sale, which is subject to completion of the ARCO combination, is intended to address FTC anti-trust concerns. BP Amoco reported March 16, 2000 that the company was at an advanced stage in discussions with the FTC on its proposed combination with ARCO and was hopeful of a successful outcome "within a matter of weeks."

BP Amoco and ARCO have reportedly agreed jointly with the FTC, the US West Coast states and Alaska to suspend litigation - originally scheduled to begin in California on March 20 - pending the outcome of those negotiations.

The sale to Phillips of all ARCO's Alaskan businesses includes a 21.9 per cent interest in the Prudhoe Bay oil field and 42.6 per cent of the gas cap, as well as a range of interests in related fields, a 55 per cent interest in the greater Kuparuk area and a 78 per cent stake in the Alpine field. The package also includes 1.1 million net exploration acres, a 22.3 per cent interest in the Trans-Alaska pipeline, and ARCO's crude oil shipping fleet that includes six tankers in service and three under construction. The booked reserves being sold total 1.9 billion barrels of oil equivalent. The \$7 billion price for the Alaskan businesses reportedly is made up of approximately \$6.5 billion cash for the field, pipeline and shipping operations and assets, plus a supplemental payment of \$500 million based on a formula tied to the price of crude oil. There will also be a payment of some \$150 million for crude oil inventories. The transaction, which is expected to close early in the second quarter and will be effective retroactive to January 1, 2000, is subject to approval of the Federal Trade Commission (FTC). The parties are reportedly working with the FTC and the states of Alaska, California, Oregon and Washington to obtain such approval.

Phillips' current Alaskan operations include a 70 percent interest in the Kenai LNG plant that has exported LNG to Japan for 30 years; a 100 percent interest in the North Cook Inlet field; a less than 2 percent interest in the Prudhoe Bay Unit; a 10 percent interest in the Point Thomson field; interests in several of the Prudhoe Bay satellites; a small interest in TAPS; and exploration acreage in NPRA and elsewhere.

Exxon Mobil Corp. ("Exxon") filed a lawsuit March 24, 2000 to stop Phillip's acquisition of ARCO's Alaska assets. Exxon contends that it has the right of first refusal to purchase certain of ARCO's Alaska assets. This lawsuit could delay or block the pending sale of ARCO Alaska, Inc. to Phillips. The FCC is expected to wait for the outcome of the Exxon lawsuit before rendering its decision.



We are not able to predict the effect on the State of Alaska's economy or on us should these acquisitions and sales transactions not be consummated, or should the expected efficiencies and cost savings not be realized.

Should new discoveries or developments not materialize or the price of oil return to its prior depressed levels, the long term trend of continued decline in oil production from the Prudhoe Bay field area is inevitable with a corresponding adverse impact on the economy of the state, in general, and on demand for telecommunications and cable television services, and, therefore, on us, in particular.

We have, since our entry into the telecommunication marketplace, aggressively marketed our services to seek a larger share of the available market. The customer base in Alaska is limited, however, with a small population of approximately 620,000 people. 42% of are located in the Anchorage area, 14% are located in the Fairbanks area, 5% are located in the Juneau area, and the rest are spread out over the vast reaches of Alaska. No assurance can be given that the driving forces in the Alaska economy, and in particular, oil production, will continue at levels to provide an environment for expanded economic activity.

#### Employees

We employed 949 persons as of March 03, 2000, and are not parties to union contracts with our employees. We believe our future success will depend upon our continued ability to attract and retain highly skilled and qualified employees. We believe that relations with our employees are satisfactory.

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#### Other

No material portion of our businesses is subject to renegotiation of profits or termination of contracts at the election of the federal government.

#### Item 2. PROPERTIES

##### General.

Our properties do not lend themselves to description by character or location of principal units. Our investment in property, plant and equipment in our consolidated operations consisted of the following at December 31:

	1999	1998
	-----	-----
Telephone distribution systems	64.5%	35.9%
Cable television distribution services	23.1%	22.3%
Support equipment	10.2%	10.5%
Property and equipment under capital leases	0.7%	0.7%
Construction in progress	0.7%	29.8%
Transportation equipment	0.5%	0.5%
Land and buildings	0.3%	0.3%
	-----	-----
Total	100.0%	100.0%
	=====	=====

These properties are divided among our operating segments at December 31, 1999 as follows: long-distance services, 56.7%; cable services, 24.6%; local access services, 7.5%; Internet services, 4.0%; and other, 7.2%.

These properties consist primarily of switching equipment, satellite earth stations, fiber-optic networks, microwave radio and cable and wire facilities, cable head-end equipment, coaxial distribution networks, routers, servers, transportation equipment, computer equipment and general office equipment. Substantially all of our properties secure our Senior Holdings Loan and Fiber Facility. You should see note 5 to the Notes to Consolidated Financial Statements included in Part II of this Report for further discussion.

Our construction in progress totaled \$2.9 million at December 31, 1999, consisting of telecommunications, cable and Internet projects that were not complete at December 31, 1999. Construction in progress totaled \$119.6 million at December 31, 1998, of which \$114.9 related to Alaska United fiber-optic facilities connecting Anchorage, Juneau, Fairbanks, Valdez and Whittier, Alaska to Seattle Washington, and \$4.7 related to telecommunications and Internet projects that were not complete at December 31, 1998.

Central office equipment, buildings, furniture and fixtures and certain operating and other equipment are insured under a blanket property insurance program. This program provides substantial limits of coverage against "all risks" of loss including fire, windstorm, flood, earthquake and other perils not specifically excluded by the terms of the policies. We currently self-insure all of our cable and fiber optic outside plant against casualty losses.

Long-Distance Services. We operate a state-of-the-art, competitive telecommunications network employing the latest digital transmission technology

based upon fiber optic and digital microwave facilities within and between Anchorage, Fairbanks and Juneau. Our network includes digital fiber optic cables linking Alaska to the contiguous 48 states and providing access to other carriers' networks for communications around the world. We use satellite transmission to remote areas of Alaska and for certain interstate traffic.

Our long-distance services segment owns properties and facilities including satellite earth stations, and distribution, transportation and office equipment. Additionally, in December 1992 we acquired access to capacity on an undersea fiber optic cable from Seward, Alaska to Pacific City, Oregon. We completed construction of an additional fiber optic cable facility linking Alaska to Seattle, Washington in February 1999, which is owned subject to an outstanding mortgage.

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We entered into a purchase and lease-purchase option agreement in August 1995 for the acquisition of satellite transponders on the PanAmSat Galaxy XR satellite to meet our long-term satellite capacity requirements. We intend to operate the satellite pursuant to a long-term capital lease arrangement with a leasing company. The purchase and lease-purchase option agreement provides for the interim lease of transponder capacity on the PanAmSat Galaxy IX satellite through the delivery of the purchased transponders.

We lease our long-distance services industry segment's executive, corporate and administrative facilities in Anchorage, Fairbanks and Juneau, Alaska. Our operating, executive, corporate and administrative properties are in good condition. We consider our properties suitable and adequate for our present needs and they are being fully utilized.

Cable Services. The Cable Systems serve 26 communities and areas in Alaska including Anchorage, Fairbanks and Juneau, the state's three largest urban areas. As of December 31, 1999 the Cable Systems consisted of approximately 1,825 miles of installed cable plant having between 300 to 550 MHz of channel capacity. Principal physical assets used in our Cable Systems include central receiving apparatus, distribution cables, converters, customer service centers and local business offices.

We lease our Cable Systems customer service and operating facilities in substantially all locations. We own the receiving and distribution equipment of each system. In order to keep pace with technological advances, we are maintaining, periodically upgrading and rebuilding the physical components of our cable communications systems. Such properties are in good condition. We consider our properties suitable and adequate for our present and anticipated future needs.

Local Access Services. We operate a state-of-the-art, competitive local access telecommunications network employing the latest digital transmission technology based upon fiber optic facilities within Anchorage. Our outside plant consists of connecting lines (aerial, underground and buried cable) not on customers' premises, the majority of which is on or under public roads, highways or streets, while the remainder is on or under private property. Central office equipment primarily consists of digital electronic switching equipment and circuit equipment. Operating equipment consists of motor vehicles and other equipment.

Substantially all of our local access services' central office equipment, administrative and business offices, and customer service centers are in leased facilities. Such properties are in good condition. We consider our properties suitable and adequate for our present and anticipated future needs.

Internet Services. We operate a state-of-the-art, competitive Internet network employing the latest available technology. We provide access to the Internet using a platform that includes many of the latest advancements in technology. The physical platform is concentrated in Anchorage and is extended into many remote areas of the state. Our Internet platform includes a trunk connecting the Anchorage POP to an Internet access point in Seattle through multiple, diversely routed upstream Internet networks, routers on each end of the frame relay trunk to control the flow of data over the trunk, and various other routers, servers and support equipment.

We lease our Internet services industry segment's operating facilities, located primarily in Anchorage. Such properties are in good condition. We consider our properties suitable and adequate for our present and anticipated future needs.

Capital Expenditures. Capital expenditures consist primarily of (a) gross additions to property, plant and equipment having an estimated service life of one year or more, plus the incidental costs of preparing the asset for its intended use, and (b) gross additions to capitalized software.

The total investment in property, plant and equipment has increased from \$44.2 million at January 1, 1995 to \$61.0 million at December 31, 1999, including construction in progress and not including deductions of accumulated

depreciation. Significant additions to property, plant and equipment will be required

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in the future to meet the growing demand for communications, Internet and entertainment services and to continually modernize and improve such services to meet competitive demands.

Our capital expenditures for 1995 through 1999 were as follows (in millions):

1995	\$ 8.9
1996	\$ 38.6
1997	\$ 64.6
1998	\$ 149.0
1999	\$ 36.6

We project capital expenditures of approximately \$80 to \$85 million for 2000, consisting of \$48 million for satellite transponders, \$15 to \$17 million for long-distance services, \$7 to \$8 million for cable services, \$5 to \$6 million for local access services, \$4 to \$5 million for Internet services, and \$1 million for wireless services. A majority of the expenditures will expand, enhance and modernize our current networks, facilities and operating systems, and will develop wireless and other businesses.

During 1999, we funded our normal business capital requirements substantially through internal sources and, to the extent necessary, from external financing sources. We expect expenditures for 2000 to be financed in the same manner, except for the new satellite transponders that will be acquired subject to long-term lease/purchase financing.

### Item 3. LEGAL PROCEEDINGS

Except as set forth in this item, neither The Company, its property nor any of its subsidiaries or their property is a party to or subject to any material pending legal proceedings. We are parties to various claims and pending litigation as part of the normal course of business. We are also involved in several administrative proceedings and filings with the FCC, Department of Labor and state regulatory authorities. In the opinion of management, the nature and disposition of these matters are considered routine and arising in the ordinary course of business which management believes, even if resolved unfavorably to us, would not have a materially adverse affect on our business or financial position, results of operations or liquidity.

### Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted during the fourth quarter of 1999 to a vote of security holders, through the solicitation of proxies or otherwise

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## PART II

### Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information for Common Stock. Shares of GCI's Class A common stock are traded on the Nasdaq National Market tier of The Nasdaq Stock Market under the symbol GNCMA. Shares of GCI's Class B common stock are traded on the Over-the-Counter market. Each share of Class B common stock is convertible, at the option of the holder, into one share of Class A common stock. The following table sets forth the high and low sales price for the above-mentioned common stock for the periods indicated. Market price data were obtained from the Nasdaq Stock Market quotation system. The prices, rounded up to the nearest eighth, represent prices between dealers, do not include retail markups, markdowns, or commissions, and do not necessarily represent actual transactions.

<TABLE>

<CAPTION>

	Class A		Class B	
	High	Low	High	Low
<S>	----	---	----	---
<C>	<C>	<C>	<C>	<C>
1998:				
First Quarter	8 3/8	6 1/8	8 3/8	6 1/8
Second Quarter	8	5 1/2	8	5 1/2
Third Quarter	6 1/8	2 5/8	6 1/8	2 5/8
Fourth Quarter	5	2 1/2	5	2 1/2
1999:				
First Quarter	5 1/4	4	5 1/4	4
Second Quarter	8	4	8	4
Third Quarter	7	4 3/4	7	4 3/4
Fourth Quarter	6 1/4	3 3/4	6 1/4	3 3/4

</TABLE>

Holders. As of December 31, 1999 there were 1,868 holders of record of GCI's Class A common stock and 562 holders of record of GCI's Class B common stock (amounts do not include the number of shareholders whose shares are held of record by brokers, but do include the brokerage house as one shareholder).

Dividends. GCI and GCI, Inc. have never paid cash dividends on their common stock and have no present intention of doing so. Payment of cash dividends in the future, if any, will be determined by GCI's Board of Directors in light of our earnings, financial condition and other relevant considerations. Our existing bank loan agreements contain provisions that prohibit payment of dividends, other than stock dividends (you should see note 5 to the Consolidated Financial Statements included in Part II of this Report for more information).

Stock Transfer Agent And Registrar. ChaseMellon Shareholder Services, L.L.C. is our stock transfer agent and registrar.

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Item 6. SELECTED FINANCIAL DATA

<TABLE>

The following table presents selected historical information relating to financial condition and results of operations over the past five years.

<CAPTION>

	Years ended December 31,				
	1999	1998	1997	1996	1995
	----	----	----	----	----
	(Amounts in thousands except per share amounts)				
<S>	<C>	<C>	<C>	<C>	<C>
Revenues (1)	\$ 279,179	246,795	223,809	164,894	129,279
Net earnings (loss) before income taxes, extraordinary item and cumulative effect of a change in accounting principle (2)	\$ (14,866)	(10,920)	(2,235)	12,690	12,601
Loss on early extinguishment of debt, net of income tax benefit of \$180	\$ 0	0	521	0	0
Cumulative effect of a change in accounting principal, net of income tax benefit of \$245	\$ 344	0	0	0	0
Net earnings (loss)	\$ (9,527)	(6,797)	(2,183)	7,462	7,502
Basic net earnings (loss) per common share	\$ (0.21)	(0.14)	(0.05)	0.28	0.32
Diluted net earnings (loss) per common share	\$ (0.21)	(0.14)	(0.05)	0.27	0.31
Total assets (3)	\$ 643,151	649,445	545,302	447,335	84,765
Long-term debt, including current portion (3)	\$ 339,400	351,657	250,084	223,242	9,980
Obligations under capital leases, including current portion	\$ 1,674	2,186	1,188	746	1,047
Total stockholders' equity (3, 4)	\$ 192,548	200,007	204,439	149,554	43,016
Dividends declared per Common share (5)	\$ 0.00	0.00	0.00	0.00	0.00

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- 1 The 1997 revenue increase is primarily attributed to reporting 12 months of cable television service revenues as compared to two months reported in 1996.
  - 2 Our net losses in 1999, 1998 and 1997 are primarily attributed to additional depreciation, amortization and interest expense resulting from the cable company acquisitions in October 1996 and startup losses from our entry into local access services and Internet services markets.
  - 3 Increases in our total assets, long-term debt and stockholders' equity in 1996 as compared to 1995 result in part from the cable company acquisitions and MCI (now MCI WorldCom) stock issuance described in note 8 to the Notes to Consolidated Financial Statements included in Part II of this Report. Increases in assets and long-term debt in 1998 as compared to 1997 result primarily from our construction of a fiber-optic system connecting points in Alaska with Seattle Washington as further described in note 9 to the accompanying Notes to Consolidated Financial Statements included in Part II of this Report.
  - 4 The 1997 increase in stockholders' equity is primarily attributed to our equity offering in August 1997, described in note 7 to the accompanying Notes to Consolidated Financial Statements included in Part II of this Report.
  - 5 We have never paid a cash dividend on our common stock and do not anticipate paying dividends in the foreseeable future. We intend to retain our earnings, if any, for the development of our business. Payment of cash dividends in the future, if any, will be determined by the board of directors in light of our earnings, financial condition, credit agreements and other relevant considerations. Our existing bank loan agreements contain provisions that prohibit payment of dividends, other than stock dividends, as further described in note 5 to the Notes to Consolidated Financial Statements included in Part II of this Report.

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</TABLE>

Item 7. Management's discussion and analysis of financial condition and results of operations

In the following discussion, General Communication, Inc. and its direct and indirect subsidiaries are referred to as "we," "us" and "our."

The following discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements and the notes thereto. See - Cautionary Statement Regarding Forward-Looking Statements.

#### OVERVIEW

We have experienced significant growth in recent years through strategic acquisitions, deploying new business lines, and expansion of our existing businesses. We have historically met our cash needs for operations through our cash flows from operating activities. Cash requirements for acquisitions and capital expenditures have been provided largely through our financing activities.

Long-distance services. Our provision of interstate and intrastate long-distance services to residential, commercial and governmental customers and to other common carriers (principally MCI WorldCom, Inc. ("MCI WorldCom") and Sprint Corporation ("Sprint")), and provision of private line and leased dedicated capacity services accounted for 97.0% of our total long-distance services revenues during 1999. Factors that have the greatest impact on year-to-year changes in long-distance services revenues include the rate per minute charged to customers and usage volumes, usually expressed as minutes of use.

Revenues from private line and other data services sales increased 13.4% to \$22.0 million during 1999 as compared to 1998 due primarily to increased system capacity and increasing demand for data services by Internet service providers ("ISP"), commercial and governmental customers, and others. Demand for data services to and from the lower 48 states previously exceeded the available supply capacity, however such demand is beginning to be filled with uncompressed fiber optic capacity on the Alaska United fiber optic cable system.

Our long-distance cost of sales and services has consisted principally of direct costs of providing services, including local access charges paid to LECs for originating and terminating long-distance calls in Alaska, and fees paid to other long-distance carriers to carry calls terminating in areas not served by our network (principally the lower 49 states, most of which calls are carried over MCI WorldCom's network, and international locations, which calls are carried principally over Sprint's network). During 1999, local access charges accounted for 52.7% of long-distance cost of sales and services, fees paid to other long-distance carriers represented 30.9%, satellite transponder lease and undersea fiber maintenance costs represented 12.8%, and other costs represented 3.6% of long-distance cost of sales and services.

Our long-distance selling, general, and administrative expenses have consisted of operating and engineering, customer service, sales and communications, management information systems, general and administrative, and legal and regulatory expenses. Most of these expenses consist of salaries, wages and benefits of personnel and certain other indirect costs (such as rent, travel, utilities, insurance and property taxes). A significant portion of long-distance selling, general, and administrative expenses, 28.5% during 1999, represents the cost of our advertising, promotion and market analysis programs.

Long-distance services face significant competition from AT&T Alascom, Inc., long-distance resellers, and from local telephone companies that have entered the long-distance market. The number of active long-distance residential, commercial and small business customers increased 10.7% at December 31, 1999 as compared to December 31, 1998. We believe our approach to developing, pricing, and providing long-distance services and bundling different business segment services will continue to allow us to be competitive in providing those services.

Revenues derived from other common carriers increased 0.2% in 1999 as compared to 1998. The low rate of growth is due primarily to reduced rates charged to such carriers and a change in the mix of wholesale minutes carried for such customers. We secured contract amendments during the second quarter of 1999 with MCI WorldCom and Sprint. The amendments provided, among other things, for a three-year

contract term extension for Sprint. The MCI WorldCom contract expires in 2001. Other common carrier traffic routed to us for termination in Alaska is largely dependent on traffic routed to MCI WorldCom and Sprint by their customers. Pricing pressures, new program offerings and market consolidation continue to evolve in the markets served by MCI WorldCom and Sprint. If, as a result, their traffic is reduced, or if their competitors' costs to terminate or originate traffic in Alaska are reduced, our traffic will also likely be reduced, and our

pricing may be reduced to respond to competitive pressures. We are unable to predict the effect on us of such changes, however given the materiality of other common carrier revenues to us, a significant reduction in traffic or pricing could have a material adverse effect on our financial position, results of operations and liquidity. In October 1999 MCI WorldCom and Sprint announced their intention to merge, subject to certain approvals. Both companies anticipate the merger will close in the second half of 2000. We are unable to predict the outcome or the merger's impact on our operations, liquidity or financial condition.

Cable services. During 1999, cable television revenues represented 21.9% of consolidated revenues. The cable systems serve 26 communities and areas in Alaska, including the state's three largest population centers, Anchorage, Fairbanks and Juneau.

We generate cable services revenues from three primary sources: (1) programming services, including monthly basic or premium subscriptions and pay-per-view movies or other one-time events, such as sporting events; (2) equipment rentals or installation; and (3) advertising sales. During 1999 programming services generated 85.5% of total cable services revenues, equipment rental and installation fees accounted for 8.8% of such revenues, advertising sales accounted for 4.6% of such revenues, and other services accounted for the remaining 1.1% of total cable services revenues. The primary factors that contribute to year-to-year changes in cable services revenues are average monthly subscription and pay-per-view rates, the mix among basic, premium and pay-per-view services, and the average number of subscribers during a given reporting period.

The cable systems' cost of sales and selling, general and administrative expenses has consisted principally of programming and copyright expenses, labor, maintenance and repairs, marketing and advertising and rental expense. During 1999 programming and copyright expenses represented 32.6% of total cable cost of sales and selling, general and administrative expenses, and general and administrative costs represented 47.3% of such total. Marketing and advertising costs represented approximately 7.9% of such total expenses.

Cable services face competition from alternative methods of receiving and distributing television signals and from other sources of news, information and entertainment. We believe our cable television services will continue to be competitive based on providing, at reasonable prices, a greater variety of programming and other communication services than are available off-air or through other alternative delivery sources and upon superior technical performance and customer service.

Local access services. We generate local access services revenues from three primary sources: (1) business and residential basic dial tone services; (2) business private line and special access services; and (3) business and residential features and other charges, including voice mail, caller ID, distinctive ring, inside wiring and subscriber line charges. Effective March 1999 we transitioned to the "bill and keep" cost settlement method for termination of traffic on our facilities and on other's facilities. Local exchange services revenues totaled \$15.5 million representing 5.6% of consolidated revenues in 1999. The primary factors that contribute to year-to-year changes in local access services revenues are the average number of business and residential subscribers to our services during a given reporting period and the average monthly rates charged for non-traffic sensitive services.

Operating and engineering expenses represented approximately 5.9% of total local access services cost of sales and selling, general and administrative expenses during 1999. Marketing and advertising costs represented approximately 5.3% of such total expenses, customer service and general and administrative costs represented approximately 48.7% of such total expenses, and local access cost of sales represented approximately 40.1% of such total expenses.

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Our local access services face significant competition in Anchorage from ACS and AT&T Alascom, Inc. We believe our approach to developing, pricing, and providing local access services will allow us to be competitive in providing those services.

Internet services. We began offering Internet services in several markets in Alaska during 1998. We generate Internet services revenues from three primary sources: (1) access product services, including commercial dedicated access ("DIAS"), ISP DIAS, and retail dial-up service revenues; (2) SchoolAccess(TM) DIAS and server revenues; and (3) network management services. Internet services revenues totaled \$9.1 million representing 3.3% of total revenues in 1999. The primary factors that contribute to year-to-year changes in Internet services revenues are the average number of subscribers to our services during a given reporting period, the average monthly subscription rates, and the number of additional premium features selected.

Operating and general and administrative expenses represented approximately 56.7% of total Internet services cost of sales and selling, general and administrative expenses during 1999. Internet cost of sales represented

approximately 37.4% of such total expenses and marketing and advertising represented approximately 5.9% of such total expenses.

Significant new marketing campaigns have been introduced in 1999 featuring bundled residential and commercial Internet products. Additional bandwidth was made available to our Internet segment resulting from completion of the Alaska United undersea fiber optic cable project. The new Internet offerings are coupled with our long-distance and local access services offerings and provide free basic Internet services or discounted premium Internet services if certain long-distance or local access services plans are selected. Value-added premium Internet features are available for additional charges.

We compete with a number of Internet service providers in our markets. We believe our approach to developing, pricing, and providing Internet services will allow us to be competitive in providing those services.

Other services, other expenses and net loss. Telecommunications services revenues reported in the Other segment as described in note 10 to the accompanying consolidated financial statements include sales of fiber optic system capacity (see below), corporate network management contracts, telecommunications equipment sales and service, other miscellaneous revenues (including revenues from cellular resale services, from prepaid and debit calling cards sales, and installation and leasing of customer's VSAT equipment).

During the second quarter of 1999 we completed a \$19.5 million sale of long-haul capacity in the Alaska United undersea fiber optic cable system ("fiber capacity sale") to ACS in a cash transaction. The sale includes both capacity within Alaska, and between Alaska and the lower 49 states. We announced in July 1999 that an agreement pertaining to a second \$19.5 million sale of fiber capacity to ACS had been executed. The agreement requires ACS to acquire additional capacity during the 18-month period following the effective date of the contract.

In addition to the fiber capacity sale of \$19.5 million, Other services segment revenues during 1999 include network solutions and outsourcing revenues totaling \$5.7 million, telecommunications equipment sales totaling \$5.5 million and cellular resale and other revenues totaling \$2.9 million.

We began developing plans for deploying PCS services in 1995 and subsequently conducted a technical trial of our candidate technology. We have invested approximately \$2.2 million in our PCS license at December 31, 1999. PCS licensees are required to offer service to at least one-third of their market population within five years or risk losing their licenses. Service must be extended to two-thirds of the population within 10 years. We are in the design/build phase of our wireless implementation plan that will allow retention of the PCS license pursuant to its terms.

Depreciation, amortization and interest expense on a consolidated basis increased \$21.5 million in 1999 as compared to 1998 resulting primarily from additional depreciation on 1998 and 1999 capital expenditures, additional average outstanding long-term debt and a reduction in the amount of capitalized construction period interest following placement of the Alaska United undersea fiber optic cable system into service in early February 1999.

RESULTS OF OPERATIONS

<TABLE>

The following table sets forth selected Statement of Operations data as a percentage of total revenues for the periods indicated (underlying data rounded to the nearest thousands):

<CAPTION>

	Year Ended December 31,			Percentage Change	
	1999	1998	1997	1999 vs. 1998	1998 vs. 1997
<S>	<C>	<C>	<C>	<C>	<C>
Statement of Operations Data:					
Revenues:					
Long-distance services	57.2%	64.0%	69.4%	1.2%	1.7%
Cable services	21.9%	23.3%	24.6%	6.1%	4.5%
Local access services	5.6%	4.0%	0.3%	56.9%	1,524.3%
Internet services	3.3%	1.9%	0.1%	98.6%	2,422.5%
Other services	12.0%	6.8%	5.6%	100.6%	33.3%
Total revenues	100.0%	100.0%	100.0%	13.1%	10.3%
Cost of sales and services	43.9%	47.0%	49.6%	5.5%	4.5%
Selling, general and administrative expenses	35.2%	36.4%	32.9%	9.4%	22.1%
Depreciation and amortization	15.3%	13.0%	10.6%	33.2%	34.8%
Operating income	5.6%	3.6%	6.9%	78.1%	(42.5%)
Net loss before income taxes, extraordinary item and cumulative change in an accounting principle	(5.3%)	(4.4%)	(1.0%)	36.1%	388.6%

Net loss before extraordinary item and cumulative change in an accounting principle	(3.3%)	(2.8%)	(0.7%)	35.1%	309.0%
Net loss	(3.4%)	(2.8%)	(1.0%)	40.2%	211.4%
Other Operating Data:					
Cable services operating income (1)	14.7%	12.4%	18.9%	26.2%	(31.7%)
Local access services operating loss (2)	(47.8%)	(112.2%)	(581.8%)	(33.2%)	213.3%
Internet services operating income (3)	(4.7%)	0.1%	(45.1%)	(8,700.0%)	(106.1%)

<FN>

1 Computed as a percentage of total cable services revenues.

2 Computed as a percentage of total local access services revenues.

3 Computed as a percentage of total Internet services revenues.

</FN>

</TABLE>

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998.

Revenues. Total revenues increased 13.1% from \$246.8 million in 1998 to \$279.2 million in 1999. Long-distance revenues from commercial, residential, governmental, and other common carrier customers increased 1.1% from \$157.9 million in 1998 to \$159.7 million in 1999. The increase in long-distance revenues was due to the following:

- An increase of 10.7% in the number of active residential, small business and commercial customers billed from 82,000 at December 31, 1998 to 90,800 at December 31, 1999,
- An increase of 14.4% in total minutes of use to 905.0 million minutes,
- An increase of 13.4% in private line and private network transmission services revenues from \$19.4 million in 1998 to \$22.0 million in 1999 due to an increased number of customers and
- New revenues in 1999 totaling \$4.8 million from the lease of three DS3 circuits on Alaska United facilities within Alaska, and between Alaska and the lower 49 states and maintenance charges related to the portion of fiber capacity purchased by ACS.

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The increase in long-distance revenue was offset by an 18.8% reduction in our average rate per minute on long-distance traffic from \$0.168 per minute in 1998 to \$0.136 per minute in 1999. The decrease in rates resulted from our promotion of and customers' enrollment in calling plans offering discounted rates and length of service rebates, such plans being prompted in part by our primary long-distance competitor, AT&T Alascom, reducing its rates, and the entry of LECs into long-distance markets served by us. Changes in wholesale product mix and reduced rates on other common carrier traffic (principally MCI WorldCom and Sprint) offset other common carrier minutes growth of 24.9% resulting in a 0.3% increase in revenues, from \$61.3 million in 1998 to \$61.5 million in 1999. Common carrier minute growth is attributable, in part, to a new category of wholesale minutes carried on the Company's network.

Cable revenues increased 6.1% from \$57.6 million in 1998 to \$61.1 million in 1999. Programming services revenues increased 5.8% to \$52.3 million in 1999 resulting from an increase of approximately 4,800 basic subscribers served by us, an increase of \$1.31 in average gross revenue per average basic subscriber per month and increased pay-per-view and premium service revenues. New facility construction efforts in the summer of 1999 resulted in approximately 2,800 additional homes passed which contributed to additional subscribers and revenues in 1999. Other factors include the launch of digital cable services in late 1998 with an associated marketing and sales effort starting in July 1999 and the introduction of a customer offering requiring a year commitment in exchange for a discounted price that reduced customer churn. Equipment rental and installation revenues increased 18.9% to \$5.4 million in 1999 due to an increase in subscribers to our digital service and associated converters that are billed at premium rates.

Local access services revenues increased 56.6% from \$9.9 million in 1998 to \$15.5 million in 1999. Approximately 45,000 lines were in service and 750 additional lines were awaiting connection at December 31, 1999.

Internet services revenues (including SchoolAccess(TM) services) increased 98.6% from \$4.6 million in 1998 to \$9.1 million in 1999. We had approximately 48,000 and 5,700 active residential, commercial and small business retail and wholesale dial-up and cable modem subscribers to our Internet service at December 31, 1999 and 1998, respectively.

Other services revenues increased 100.6% from \$15.8 million in 1998 to \$33.6 million in 1999. The 1999 increase was largely due to the fiber capacity sale as previously described.

Cost of sales and services. Cost of sales and services totaled \$116.1 million in 1998 and \$122.5 million in 1999. As a percentage of total revenues, cost of sales and services decreased from 47.0% in 1998 to 43.9% in 1999. The decrease in cost of sales and services as a percentage of revenues is primarily attributed to the impact of the fiber capacity sale and changes in our product mix due to continuing development of new product lines and growth of existing



product lines (local access services, data services and Internet). The overall margin improvement was partially offset by increased cable services cost of sales as a percentage of cable services revenues. Cable cost of sales increased more than cable revenues increased in 1999.

Long-distance cost of sales and services increased from \$79.3 million in 1998 to \$81.0 million in 1999. Long-distance cost of sales as a percentage of long-distance revenues increased from 50.2% in 1998 to 50.7% in 1999 primarily due to a decrease in the average rate per minute billed to customers without a comparable decrease in access charges paid by us, and a non-recurring refund received in the second quarter of 1998 totaling approximately \$1.1 million from a local exchange carrier in respect of its earnings that exceeded regulatory requirements. Offsetting the 1999 increase as compared to 1998 are reductions in access costs due to our distribution and termination of our traffic on our own local services network instead of paying other carriers to distribute and terminate our traffic. We expect increased cost savings as traffic carried on our own facilities continues to grow. Additional capacity between Alaska and the lower 48 states now available on the Alaska United fiber optic cable system has allowed us to carry significant additional amounts of data services traffic on our own facilities rather than paying other carriers for leased capacity.

Cable cost of sales and services as a percentage of revenues, which is less as a percentage of revenues than are long-distance, local access and Internet services cost of sales and services, increased from 23.3% in 1998 to 25.3% in 1999. Cable services rate increases did not keep pace with increases in programming and

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copyright costs in 1999. Programming costs increased on most of our cable services offerings, and we incurred additional costs on new programming introduced in 1998 and 1999.

Local access services cost of sales and services totaled 50.8% and 61.7% as a percentage of 1999 and 1998 local access services revenues, respectively. Internet services cost of sales and services totaled 34.6% and 74.1% as a percentage of the 1999 and 1998 Internet services revenues, respectively. Our local access operations commenced in 1997 and Internet services operations commenced in 1998. Fluctuations in cost of sales and services as a percentage of revenues are expected to continue to occur as these product lines develop and mature.

The decrease in 1998 and 1999 other services cost of sales and services as a percentage of other services revenue from 82.5% to 44.5%, respectively, is primarily due to the fiber capacity sale as previously described.

Selling, general and administrative expenses. Selling, general and administrative expenses increased 9.4% from \$89.8 million in 1998 to \$98.3 million in 1999. The 1999 increase resulted from:

- Increased costs associated with operations and maintenance of the Alaska United fiber optic cable system that was placed into service in early February 1999. 1999 costs totaled \$3.6 million as compared to \$1.1 million in 1998.
- Internet services operating, engineering, sales, customer service and administrative cost increases, from \$715,000 in 1998 as compared to \$5.3 million in 1999. We gradually introduced our Internet services through the third quarter of 1998 and began aggressive advertising efforts in the fourth quarter of 1998. Increased costs were necessary to provide the operations, engineering, customer service and support infrastructure necessary to accommodate expected growth in our Internet services customer base.
- Increased allowance for doubtful accounts receivable.
- Accrual of a Company-wide success sharing bonus totaling \$1.6 million in 1999. Success sharing is a bonus paid to all employees when our earnings before interest, depreciation, amortization and taxes reach new highs.
- A reduction in long-distance services capitalized labor due to completion of the fiber optic cable system construction effort.

Partially offsetting these increases were a \$1.1 million reduction in cable general and administrative costs and a \$1.0 million reduction in long-distance marketing and sales costs in 1999 as compared to 1998.

Selling, general and administrative expenses, as a percentage of total revenues, decreased from 36.4% in 1998 to 35.2% in 1999 primarily as a result of significant revenues derived from the fiber capacity sale without a proportionate increase in selling, general and administrative expenses.

Depreciation and amortization. Depreciation and amortization expense increased 33.2% from \$32.0 million in 1998 to \$42.7 million in 1999. The increase is attributable to our \$58.4 million investment in equipment and facilities placed into service during 1998 for which a full year of depreciation was recorded during 1999, the Alaska United undersea fiber optic cable system placed into service in the first quarter of 1999 for which 11 months of depreciation was recorded during 1999, and the \$36.6 million investment in equipment and facilities during 1999 for which a partial year of depreciation was recorded in 1999.

Interest expense, net. Interest expense, net of interest income, increased 54.6% from \$19.8 million in 1998 to \$30.6 million in 1999. This increase resulted primarily from increases in our average outstanding indebtedness resulting primarily from construction of new long-distance and Internet facilities, expansion and upgrades of cable television facilities, investment in local access services equipment and facilities, and slightly higher interest rates on outstanding indebtedness. During 1998 interest expense was offset in part by capitalized construction period interest. The amount of interest capitalized in 1999 decreased significantly due to the completion of the Alaska United undersea fiber optic cable system in early February 1999. We charged to interest expense \$470,000 of deferred financing costs in the second quarter of 1999 resulting from the amendment to the Holdings Loan Facilities amendment that reduced our borrowing capacity (see Liquidity and Capital Resources).

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Income tax benefit. Income tax benefit increased from \$4.1 million in 1998 to \$5.7 million in 1999 due to an increased net loss before income taxes and cumulative effect of a change in accounting principle in 1999 as compared to 1998. Our effective income tax rate increased from 37.8% in 1998 to 38.2% in 1999 due to the proportional amount of items that are nondeductible for income tax purposes.

At December 31, 1999, we have (1) tax net operating loss carryforwards of approximately \$88.0 million that will begin expiring in 2008 if not utilized, and (2) alternative minimum tax credit carryforwards of approximately \$2.5 million available to offset regular income taxes payable in future years. Our utilization of remaining net operating loss carryforwards is subject to certain limitations pursuant to Internal Revenue Code section 382.

Tax benefits associated with recorded deferred tax assets are considered to be more likely than not realizable through taxable income earned in carryback years, future reversals of existing taxable temporary differences, and future taxable income exclusive of reversing temporary differences and carryforwards. The amount of deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced. We estimate that our effective income tax rate for financial statement purposes will be approximately 38% in 2000. We expect that our operations will generate net income before income taxes during the carryforward periods to allow utilization of loss carryforwards for which no allowance has been established.

Year Ended December 31, 1998 Compared to Year Ended December 31, 1997.

Revenues. Total revenues increased 10.3% from \$223.8 million in 1997 to \$246.8 million in 1998. Long-distance transmission revenues from commercial, residential, governmental, and other common carrier customers increased 1.7% from \$155.3 million in 1997 to \$157.9 million in 1998. This increase reflected a 5.5% increase in total minutes of use to 791.3 million minutes. Long-distance revenue growth in 1998 was largely due to a 8.5% increase in revenues from other common carriers (principally MCI WorldCom and Sprint), from \$56.5 million in 1997 to \$61.3 million in 1998. Private line and private network transmission services revenues increased 22.0%, from \$15.9 million in 1997 to \$19.4 million in 1998.

The long-distance transmission revenue increases described above were offset in part by a 5.1% reduction in our average rate per minute on long-distance traffic from \$0.177 per minute in 1997 to \$0.168 per minute in 1998. The decrease in rates resulted from our promotion of and customers' enrollment in new calling plans offering discounted rates and length of service rebates, such new plans being prompted in part by our primary long-distance competitor, AT&T Alascom, reducing its rates and entry of LECs into long-distance markets served by us. Operator services revenues decreased 14.3% from \$7.0 million in 1997 to \$6.0 million in 1998. Traffic carried by our operator service center decreased in part from increased usage of prepaid calling cards and cellular telephones by tourists visiting the state of Alaska.

Cable revenues increased 4.3% from \$55.2 million in 1997 to \$57.6 million in 1998. Programming services revenues increased 3.1% to \$49.4 million in 1998 resulting from an increase of 3,900 basic subscribers served and an increase of \$0.47 in revenue per average basic subscriber, per month. New facility construction efforts in 1998 resulted in additional homes passed which contributed to additional subscribers and revenues. Other factors included facility upgrades, which allowed the introduction of digital cable services in Anchorage, increased promotional, and advertising efforts and increases in basic and premium service rates in certain areas. Advertising sales revenues increased 31.9% to \$2.9 million in 1998 due to increased promotion of our advertising and ad insertion capabilities. Equipment rental and installation revenues increased 6.2% to \$4.5 million in 1998 due to increased equipment rentals and installation services provided by us. Offsetting these increases were reductions in pay-per-view and premium service revenues.

Local access services revenues increased from \$610,000 in 1997 to \$9.9 million in 1998. 1998 revenues reflect a full 12 months of local services operations and

growth as compared to start-up operations in 1997. At December 31, 1998 approximately 28,000 lines were in service and approximately 1,000 additional lines were awaiting connection.

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Internet services revenues increased from \$182,000 in 1997 to \$4.6 million in 1998. 1998 revenues reflect a full 12 months of Internet services operations and growth as compared to start-up operations in 1997. We had approximately 7,200 active residential subscribers to our Internet service at February 9, 1999.

Other services revenues increased 33.3% from \$12.6 million in 1997 to \$16.8 million in 1998. The 1998 increase was due to increased product and cellular service sales.

Cost of sales and services. Cost of sales and services totaled \$111.1 million in 1997 and \$116.1 million in 1998. As a percentage of total revenues, cost of sales and services decreased from 49.6% in 1997 to 47.0% in 1998. The decrease in cost of sales and services as a percentage of revenues is primarily attributed to changes in our product mix due to the addition of new product lines for a full year of operations (local access services and Internet services), and reduced long-distance cost of sales as a percentage of long-distance revenues. The margin improvement was partially offset by increased cable services cost of sales as a percentage of cable services revenues.

The decrease in long-distance cost of sales and services as a percentage of revenues is primarily attributed to: 1) a refund received in the first quarter of 1998 totaling approximately \$1.1 million from a LEC in respect of its earnings that exceeded regulatory requirements, 2) reductions in access charges paid by us to other carriers for distribution of our traffic, and 3) avoidance of access charges resulting from our distribution and termination of our traffic on our own network instead of paying other carriers to distribute and terminate our traffic.

Cable cost of sales and services as a percentage of revenues is less as a percentage of revenues than are long-distance, local access and Internet services cost of sales and services. Cable services rate increases did not keep pace with increases in programming and copyright costs in 1998. Programming costs increased on most of our offerings and we incurred additional costs on new programming introduced in 1998.

Local access services cost of sales and services totaled 61.7% and 43.8% as a percentage of 1998 and 1997 local access services revenues, respectively. Internet services cost of sales and services totaled 74.1% and 132.4% as a percentage of 1998 and 1997 Internet services revenues, respectively. Our local access and Internet services operations commenced in 1997. Fluctuations in cost of sales and services as a percentage of revenues are expected to occur as start-up products develop into mature product lines.

Selling, general and administrative expenses. Selling, general and administrative expenses increased 22.1% from \$73.6 million in 1997 to \$89.8 million in 1998, and, as a percentage of revenues, increased from 32.9% in 1997 to 36.4% in 1998. This increase resulted from:

- Local access services operating, engineering, sales, customer service and administrative cost increases, from \$3.4 million in 1997 as compared to \$12.3 million in 1998. We initiated local access services in September 1997. The increase was necessary to provide the operations, engineering, customer service and support infrastructure necessary to accommodate expected growth in our local access services customer base.
- Increased long-distance general and administrative expenses of \$2.1 million in 1998 due to increased personnel and other costs in customer service, engineering, operations, accounting, human resources, legal and regulatory, and management information services. Increased customer service expenses were associated with support of increased sales volumes and expenditures necessary to integrate customer service operations across product lines.
- Increased long-distance sales, advertising, telemarketing, carrier relations, business development and rural services costs totaling \$15.3 million in 1997 compared to \$17.6 million in 1998. Increased selling costs were associated with the introduction of various marketing plans and other proprietary rate plans and cross promotion of products and services.
- Cable services operating, engineering, sales, customer service and administrative cost increases, from \$18.4 million in 1997 as compared to \$19.8 million in 1998. The increase was primarily incurred to promote and market our cable services.
- Internet services operating, engineering, sales, customer service and administrative cost increases, from \$23,000 in 1997 as compared to \$715,000 in 1998. We initiated our Internet services in 1998. The increase was necessary to provide the operations, engineering, customer service and

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support infrastructure necessary to accommodate expected growth in our Internet services customer base.

- Operating, engineering, marketing and administrative costs associated with the construction of the fiber optic cable by Alaska United totaled \$1.1

million in 1998. No costs directly associated with the fiber optic cable operations were incurred in 1997.

Depreciation and amortization. Depreciation and amortization expense increased 34.8% from \$23.8 million in 1997 to \$32.0 million in 1998. The increase is attributable to our \$64.6 million of facilities placed into service during 1997 for which a full year of depreciation was recorded during the year ending December 31, 1998 and the \$58.4 million of facilities placed into service in 1998 for which a partial year of depreciation was recorded during 1998 on equipment and facilities placed into service in 1998.

Interest expense, net. Interest expense, net of interest income, increased 12.5% from \$17.6 million in 1997 to \$19.8 million in 1998. This increase resulted primarily from increases in our average outstanding indebtedness resulting primarily from construction of new long-distance and Internet facilities, expansion and upgrades of cable television facilities, and investment in local access services equipment and facilities. Such increases were offset in part by increases in the amount of interest capitalized during 1998.

Income tax benefit. Income tax benefit increased from \$600,000 in 1997 to \$4.1 million in 1998 due to us incurring a larger net loss before income taxes and extraordinary item in 1998 as compared to 1997. Our effective income tax rate increased from 25.6% in 1997 to 37.8% in 1998 due to the net loss and the proportional amount of items that are nondeductible for income tax purposes.

FLUCTUATIONS IN QUARTERLY RESULTS OF OPERATIONS

<TABLE>

The following chart provides selected unaudited statement of operations data from our quarterly results of operations during 1999 and 1998.

<CAPTION>

(Amounts in thousands, except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
<S> 1999 ----	<C>	<C>	<C>	<C>	<C>
Revenues:					
Long-distance services	\$ 37,542	39,272	42,409	40,499	159,722
Cable services	\$ 15,062	14,909	15,218	15,957	61,146
Local access services	\$ 3,714	3,764	3,845	4,220	15,543
Internet services	\$ 1,969	2,534	2,018	2,599	9,120
Other services	\$ 3,051	23,180	3,850	3,567	33,648
Total revenues	\$ 61,338	83,659	67,340	66,842	279,179
Operating income (loss)	\$ (368)	12,655	1,908	1,555	15,750
Net income (loss) before income taxes and cumulative effect of a change in accounting principle	\$ (7,328)	4,495	(5,702)	(6,331)	(14,866)
Net income (loss) before cumulative effect of a change in accounting principle	\$ (4,521)	2,491	(3,537)	(3,616)	(9,183)
Net income (loss)	\$ (4,865)	2,491	(3,537)	(3,616)	(9,527)
Basic income (loss) per common share:					
Net income (loss) before cumulative effect of a change in accounting principle	\$ (0.09)	0.04	(0.08)	(0.08)	(0.20)
Cumulative effect of a change in accounting principle	\$ (0.01)	---	---	---	(0.01)
Net income (loss)	\$ (0.10)	0.04	(0.08)	(0.08)	(0.21)

</TABLE>

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<TABLE>

<CAPTION>

(Amounts in thousands, except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
<S>	<C>	<C>	<C>	<C>	<C>
Diluted income (loss) per common share:					
Net income (loss) before cumulative effect of a change in accounting principle (1)	\$ (0.09)	0.04	(0.08)	(0.08)	(0.20)
Cumulative effect of a change in accounting principle	\$ (0.01)	---	---	---	(0.01)

Net income (loss) (1)	\$ (0.10)	0.04	(0.08)	(0.08)	(0.21)
-----					
1998					
-----					
Revenues:					
Long-distance services	\$ 38,651	41,366	40,847	36,486	157,350
Cable services	\$ 14,201	14,041	14,484	14,914	57,640
Local access services	\$ 1,013	2,049	2,744	4,102	9,908
Internet services	\$ 903	1,014	1,060	1,614	4,591
Other services	\$ 3,384	4,471	3,631	5,820	17,306
-----					
Total revenues	\$ 58,152	62,941	62,766	62,936	246,795
Operating income	\$ 2,437	1,447	1,730	3,230	8,844
Net loss	\$ (1,616)	(2,066)	(2,076)	(1,039)	(6,797)
Basic loss per common share (1)	\$ (0.03)	(0.04)	(0.04)	(0.02)	(0.14)
Diluted loss per common share (1)	\$ (0.03)	(0.04)	(0.04)	(0.02)	(0.14)

<FN>

1 Due to rounding, the sum of quarterly loss per common share amounts may not agree to year-to-date loss per common share amounts.

</FN>

</TABLE>

Revenues. Total revenues for the quarter ended December 31, 1999 ("fourth quarter") were \$66.8 million, representing a 0.7% decrease from total revenues in the quarter ended September 30, 1999 ("third quarter") of \$67.3 million. The decrease in total revenues resulted from decreased revenues from sales to other common carriers (principally MCI WorldCom and Sprint) due to a 1.5% decrease in minutes carried, a 4.4% reduction in the long-distance average rate per minute and a 1.8% reduction in non-OCC minutes of traffic carried. Revenues from other common carriers (principally MCI WorldCom and Sprint) totaled \$15.4 million in the fourth quarter and \$16.3 million in the third quarter. Partially offsetting this decrease was an increase in cable services revenues to \$16.0 million in the fourth quarter from \$15.2 million in the third quarter and an increase in Internet services revenues to \$2.6 million in the fourth quarter from \$2.0 million in the third quarter.

Long-distance revenues have historically been highest in the summer months as a result of temporary population increases attributable to tourism and increased seasonal economic activity such as construction, commercial fishing, and oil and gas activities. Cable television revenues, on the other hand, are higher in the winter months because consumers spend more time at home and tend to watch more television during these months. Local service operations are not expected to exhibit significant seasonality. Internet access services are expected to reflect seasonality trends similar to the cable television segment. Our ability to implement construction projects is also hampered during the winter months because of cold temperatures, snow and short daylight hours.

Cost of sales and services. Cost of sales and services decreased 0.7% from \$30.2 million in the third quarter to \$30.0 million in the fourth quarter. As a percentage of revenues, third and fourth quarter cost of sales and services totaled 44.9%.

Selling, general and administrative expenses. Selling, general and administrative expenses increased \$600,000 in the fourth quarter as compared to the third quarter. As a percentage of revenues, fourth quarter selling, general and administrative expenses were 37.5% as compared to 36.3% for the third quarter. The fourth quarter increase as a percentage of sales is primarily a result of a \$700,000 increase

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in expenses associated with a Company-wide success sharing program. Success sharing is a bonus paid to all employees when our earnings before interest, depreciation, amortization and taxes reach new highs.

Net loss. We reported a net loss of \$3.6 million for the fourth quarter as compared to a net loss of \$3.5 million for the third quarter.

#### LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities totaled \$33.3 million in 1999, net of changes in the components of working capital. Additional sources of cash included preferred stock issuance proceeds totaling \$20.0 million in 1999, and long-term borrowings of \$13.8 million and \$103.2 million in 1999 and 1998, respectively. Our expenditures for property and equipment, including construction in progress, totaled \$36.6 million and \$149.0 million in 1999 and 1998, respectively. Our uses of cash during 1999 also included repayment of \$26.6 million of long-term borrowings and capital lease obligations.

Net receivables increased \$1.9 million from December 31, 1998 to December 31, 1999 due to a \$5.9 million increase in trade receivables primarily from the

long-distance, cable and local access services product lines and our Internet SchoolAccess(TM) service offering. Partially offsetting the above described increase were income tax refunds received totaling \$2.0 million and an increase in the allowance for doubtful accounts of \$1.9 million.

Working capital totaled \$22.7 million at December 31, 1999, a \$13.5 million increase from working capital of \$9.2 million as of December 31, 1998. The increase in working capital is primarily attributed to:

- Recording the \$9.1 million Transponder Deposit as a Refundable Deposit upon signing a commitment letter for a long-term capital lease of transponder capacity on the new satellite. We had previously expected to draw down our senior credit facility to purchase the transponder capacity. The Transponder Deposit will be refunded when the lease is consummated in 2000.
- Increased net receivables as discussed above.
- Decreased current maturities of long-term debt of \$1.8 million due to the payoff of the undersea fiber and equipment loan.
- Reduced levels of capital expenditures and accruals in 1999 as compared to 1998.

The above increases are off-set by a decrease in the current deferred income taxes of \$1.3 million from December 31, 1998 to December 31, 1999 and an increase of \$2.0 million in accrued payroll and payroll related obligations due to the accrual of a Company-wide success sharing bonus.

The Holdings \$200,000,000 (\$150,000,000 as amended) and \$50,000,000 credit facilities mature June 30, 2005. The Holdings Loan facilities were amended in April 1999 (see below) and bear interest, as amended, at either Libor plus 1.00% to 2.50%, depending on the leverage ratio of Holdings and certain of its subsidiaries, or at the greater of the prime rate or the federal funds effective rate (as defined) plus 0.05%, in each case plus an additional 0.00% to 1.375%, depending on the leverage ratio of Holdings and certain of its subsidiaries. \$87.7 million and \$106.7 million were drawn on the credit facilities as of December 31, 1999 and 1998, respectively.

On April 13, 1999, we amended the Holdings credit facilities. These amendments contained, among other things, provisions for payment of a one-time amendment fee of 0.25% of the aggregate commitment, an increase in the commitment fee by 0.125% per annum on the unused portion of the commitment, and an increase in the interest rate of 0.25%. The amended facilities reduce the aggregate commitment by \$50 million to \$200 million, and limit capital expenditures to \$35 million in 1999 and \$35 million in 2000 with no limits thereafter (excluding amounts paid for the Alaska United fiber optic cable system). Pursuant to the Financial Accounting Standards Board Emerging Issues Task Force Issue 98-14, "Debtor's Accounting for Changes in Line-of-Credit or Revolving Debt Arrangements," we recorded as additional interest expense \$470,000 of deferred financing costs in the second quarter of 1999 resulting from the reduced borrowing capacity. In connection with the April 1999 amendment, we agreed to pay all fees and expenses of our lenders, including an amendment fee of 0.25% of the aggregate commitment, totaling \$530,000.

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Holding's credit facilities and GCI, Inc.'s senior notes contain restrictions on our operations and activities, including requirements that we comply with certain financial covenants and financial ratios. Under the amended Holding's credit facility, Holdings may not permit the ratio of senior debt to annualized operating cash flow (as defined) of Holdings and certain of its subsidiaries to exceed 3.0 to 1.0 through December 31, 1999, total debt to annualized operating cash flow to exceed 6.25 to 1.00 through March 31, 2000, and annualized operating cash flow to interest expense to be less than 1.5 to 1.0 through September 30, 1999 and 1.75 to 1.0 from October 1, 1999 through December 31, 1999. Each of the foregoing ratios decreases in specified increments during the life of the credit facility. The credit facility requires Holdings to maintain a ratio of annualized operating cash flow to debt service of Holdings and certain of its subsidiaries of at least 1.25 to 1.0, and annualized operating cash flow to fixed charges of at least 1.0 to 1.0 (which adjusts to 1.05 to 1.0 in April, 2003 and thereafter). The senior notes impose a requirement that the leverage ratio of GCI, Inc. and certain of its subsidiaries not exceed 7.5 to 1.0 prior to December 31, 1999 and 6.0 to 1.0 thereafter, subject to the ability of GCI, Inc. and certain of its subsidiaries to incur specified permitted indebtedness without regard to such ratios.

On January 27, 1998 Alaska United closed a \$75 million project finance facility ("Fiber Facility") to construct a fiber optic cable system connecting Anchorage, Fairbanks, Valdez, Whittier, Juneau and Seattle. At December 31, 1999 \$71.7 million was borrowed under the facility. The Fiber Facility is a 10-year term loan that is interest only for the first 5 years. The facility can be extended an additional two years at any time between the second and fifth anniversary of closing the facility if we can demonstrate projected revenues from certain capacity commitments will be sufficient to pay all operating costs, interest, and principal installments based on the extended maturity. The Fiber Facility bears interest at either Libor plus 3.0%, or at the lender's prime rate plus 1.75%. The interest rate will decline to Libor plus 2.5%-2.75%, or, at our option, the lender's prime rate plus 1.25%-1.5% after the project completion date and when the loan balance is \$60 million or less.

The Fiber Facility contains, among others, covenants requiring certain intercompany loans and advances in order to maintain specific levels of cash flow necessary to pay operating costs, interest and principal installments. All of Alaska United's assets, as well as a pledge of the partnership interests' owning Alaska United, collateralize the Fiber Facility. Construction of the fiber facility was completed and the facility was placed into service on February 4, 1999. The project was completed on budget.

We will use approximately one-half of the Alaska United system capacity in addition to our existing owned and leased facilities to carry our own traffic. One of our large commercial customers signed agreements in the first quarter of 1999 for the immediate lease of three DS3 circuits on Alaska United facilities within Alaska, and between Alaska and the lower 48 states. The lease agreements provide for three-year terms, with renewal options for additional terms. In the second quarter of 1999 we completed a sale of capacity in the Alaska United system to ACS in a \$19.5 million cash transaction. The sale includes both capacity within Alaska, and between Alaska and the lower 48 states. An agreement was executed in July 1999 for a second \$19.5 million sale of fiber capacity to ACS. We continue to pursue opportunities for sale or lease of additional capacity on our system.

Our expenditures for property and equipment, including construction in progress, totaled \$36.6 million and \$149.0 million during 1999 and 1998, respectively. Planned capital expenditures over the next five years include those necessary for continued expansion of our long-distance, local exchange and Internet facilities, the development and construction of a PCS network and continued upgrades to our cable television plant. Sources of funds for these planned capital expenditures are expected to include internally generated cash flows and borrowings under our credit facilities.

Our ability to invest in discretionary capital and other projects will depend upon our future cash flows and access to borrowings under our credit facilities. Management anticipates that cash flow generated by us and our borrowings under our credit facilities will be sufficient to fund capital expenditures and our working capital requirements. Should cash flows be insufficient to support additional borrowings, such investment in capital expenditures will likely be reduced.

We entered into a purchase and lease-purchase option agreement in August 1995 for the acquisition of satellite transponders to meet our long-term satellite capacity requirements. The satellite was successfully launched in January 2000 and delivered to us on March 5, 2000. In March 2000 we agreed to finance the

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satellite transponders pursuant to a long-term capital lease arrangement with a leasing company. We will continue to lease transponder capacity on the PanAmSat Galaxy IX satellite until our communications traffic is successfully transitioned to the new satellite transponders.

We issued 20,000 shares of convertible redeemable accreting preferred stock ("Preferred Stock") on April 30, 1999. Proceeds totaling \$20 million (before payment of expenses) were used for general corporate purposes, to repay outstanding indebtedness, and to provide additional liquidity. Prior to the four-year anniversary following closing, dividends are payable semi-annually at the rate of 8.5%, plus accrued but unpaid dividends, at the Company's option, in cash or in additional fully-paid shares of Preferred Stock. Dividends earned after the four-year anniversary of closing are payable semi-annually at the rate of 17%, plus accrued but unpaid dividends, in cash only. Dividends totaling \$1,158,000 were accrued for the year ended December 31, 1999. Mandatory redemption is required 12 years from the date of closing.

The long-distance, local access, cable, Internet and wireless services industries are experiencing increasing competition and rapid technological changes. Our future results of operations will be affected by our ability to react to changes in the competitive environment and by our ability to fund and implement new technologies. We are unable to determine how competition, technological changes and our net operating losses will affect our ability to obtain financing.

We believe that we will be able to meet our current and long-term liquidity and capital requirements, including fixed charges and Preferred Stock dividends, through our cash flows from operating activities, existing cash, cash equivalents, short-term investments, credit facilities, and other external financing and equity sources.

#### NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". Among other provisions, it requires that entities recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Gains and losses resulting from changes in the fair values of those derivatives would be accounted for depending on the use of the

derivative and whether it qualifies for hedge accounting. The effective date of this standard was delayed via the issuance of SFAS No. 137. The effective date for SFAS No. 133 is now for fiscal years beginning after June 15, 2000, though earlier adoption is encouraged and retroactive application is prohibited. This means that we must adopt the standard no later than January 1, 2001. We do not expect the adoption of this standard to have a material impact on results of operations, financial position or cash flows.

#### ALASKA ECONOMY

We offer voice and data telecommunication and video services to customers primarily throughout Alaska. As a result of this geographic concentration, growth of our business and our operations depend upon economic conditions in Alaska. The economy of Alaska is dependent upon the natural resource industries, and in particular oil production, as well as investment earnings, tourism, government, and United States military spending. Any deterioration in these markets could have an adverse impact on us. Oil revenues are now the third largest source of state revenues, following investment income and federal funds. Alaska's investment earnings will supply 33% of the state's projected revenues in fiscal 2001, with federal funding comprising 27% of the total and oil revenues 24% of the total. Much of the investment income and all of the federal funding is restricted or dedicated for specific purposes, however, leaving oil revenues as the primary funding source (75%) of general operating expenditures.

The volume of oil transported by the TransAlaska Oil Pipeline System ("TAPS") over the past 20 years has been as high as 2.0 million barrels per day in fiscal 1988. Production has begun to decline in recent years and is presently down 40% from the fiscal 1988 level, and down 25% from the fiscal 1997 level. The two largest producers of oil in Alaska (the primary users of the TAPS) continue to explore, develop and produce new oil fields and to enhance recovery from existing fields to offset the decline in production from the Prudhoe Bay field. Both companies have invested large sums of money in developing and implementing oil recovery techniques at the Prudhoe Bay field and other nearby fields. The state now forecasts a temporary reversal of the production rate decline and a slight increase in the production rate during the

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period from fiscal 2003 to 2005. This forecasted increase is attributed to new developments at the Alpine, Liberty and Northstar fields, as well as new production from Prudhoe Bay and other fields.

Market prices for North Slope oil declined to below \$10 per barrel in 1998, and averaged \$12.70 in fiscal 1999, well below the average price used by the state to budget its oil related revenues. The prices have since increased to over \$30 per barrel in March 2000, with a year-to-date fiscal 2000 average price per barrel of \$22.78. Over the past decade, the rolling 60-month average price for North Slope crude oil has been between \$16.39 and \$17.74 per barrel 95 percent of the time.

The state's forecast for fiscal 2001 shows the price for North Slope crude averaging \$18.28 and then declining to the low-\$18 and high-\$17 range for the next five years. Recent higher prices are largely due to the OPEC March 1999 agreement to cut production to force prices higher. The OPEC agreement called for production cuts from January 1999 levels of a little more than 2 million barrels per day. Although OPEC trimmed output by about 1.75 million barrels, or nearly 85 percent of targeted reductions, October 1999 OPEC production has increased by 400,000 barrels per day. This reduces current compliance to 65 percent of targeted cuts. History suggests that market forces lead to lower prices when oil sells for more than \$20 per barrel. What is uncertain is when and how fast the correction will occur. The response of non-OPEC production to higher prices is uncertain. The production policy of OPEC and its ability to continue to act in concert represents a key uncertainty in the state's revenue forecast.

The state of Alaska maintains the Constitutional Budget Reserve Fund that is intended to fund budgetary shortfalls. Based on the state's oil price and production forecasts, and considering the state's other revenues, the Alaska Department of Revenue expects the state will need to draw less than \$500 million from the Constitutional Budget Reserve Fund in Fiscal 2000 and about \$700 million in Fiscal 2001 to balance the state's budget, down substantially from the \$1 billion fiscal 2000 draw expected in their spring 1999 forecast. If the state's current projections are realized, the Constitutional Budget Reserve Fund will be depleted in 2004. If the fund is depleted, aggressive state action will be necessary to increase revenues and reduce spending in order to balance its budget. The Governor of the state of Alaska and the Alaska Legislature are pursuing cost cutting and revenue enhancing measures.

Oil companies and service providers announced cost cutting measures to offset a portion of the declining oil revenues in 1999, resulting in a reduction of oil industry jobs of over 1,400. Projects that are underway are reportedly not affected by the cutbacks, however BP Amoco did notify state officials that it would delay its exploration of the Genesee test site east of Prudhoe.



Although oil prices have a substantial effect on Alaska's economy, analysts believe that tourism, air cargo, and service sectors are strong enough to offset a portion of the expected downturn. These industries have helped offset the prevailing pattern of oil industry downsizing that has occurred during much of the last several years. Three other factors that support Alaska's economy are the healthy national economy, lower interest rates, and low inflation. We expect construction to remain strong over the next few years. \$1.77 billion of federal money is expected to be distributed to the State of Alaska for highways and other federally supported projects in fiscal 2000.

Effective March 1997, the State of Alaska passed new legislation relaxing state oil royalties with respect to marginal oil fields that the oil companies claim would not be economic to develop otherwise. No assurance can be given that oil companies doing business in Alaska will be successful in discovering new fields or further developing existing fields which are economic to develop and produce oil with access to the pipeline or other means of transport to market, even with the reduced level of royalties.

BP Amoco announced in April 1999 its intention to purchase ARCO for \$26.8 billion. BP Amoco and ARCO together reportedly own approximately 70 percent of the Alaska North Slope oil fields and the company that operates the TAPS.

On February 2, 2000 the FTC voted to fight in federal court to block BP Amoco's purchase of ARCO citing their concern over:

- the reduction in competition in the sale of Alaska oil to West Coast independent refineries;
- the reduction in competition in Alaska lease sales, thus reducing state and federal government revenue from such sales; and

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- possible manipulation of futures market prices by the resulting company.

On March 15, 2000 BP Amoco and ARCO announced that they have agreed to sell ARCO's Alaskan businesses to Phillips Petroleum Co. ("Phillips") for approximately \$7 billion. The sale, which is subject to completion of the ARCO combination, is intended to address FTC anti-trust concerns. BP Amoco reported March 16, 2000 that the company was at an advanced stage in discussions with the FTC on its proposed combination with ARCO and was hopeful of a successful outcome "within a matter of weeks."

BP Amoco and ARCO have reportedly agreed jointly with the FTC, the US West Coast states and Alaska to suspend litigation - originally scheduled to begin in California on March 20 - pending the outcome of those negotiations.

The sale to Phillips of all ARCO's Alaskan businesses includes a 21.9 per cent interest in the Prudhoe Bay oil field and 42.6 per cent of the gas cap, as well as a range of interests in related fields, a 55 per cent interest in the greater Kuparuk area and a 78 per cent stake in the Alpine field. The package also includes 1.1 million net exploration acres, a 22.3 per cent interest in the Trans-Alaska pipeline, and ARCO's crude oil shipping fleet that includes six tankers in service and three under construction. The booked reserves being sold total 1.9 billion barrels of oil equivalent. The approximately \$7 billion price for the Alaskan businesses reportedly is made up of approximately \$6.5 billion cash for the field, pipeline and shipping operations and assets, plus a supplemental payment of \$500 million based on a formula tied to the price of crude oil. There will also be a payment of some \$150 million for crude oil inventories. The transaction, which is expected to close early in the second quarter and will be effective retroactive to Jan. 1, 2000, is subject to approval of the FTC. The parties are reportedly working with the FTC and the states of Alaska, California, Oregon and Washington to obtain such approval.

Phillips' current Alaskan operations include a 70 percent interest in the Kenai liquefied natural gas plant that has exported its products to Japan for 30 years; a 100 percent interest in the North Cook Inlet field; a less than 2 percent interest in the Prudhoe Bay Unit; a 10 percent interest in the Point Thomson field; interests in several of the Prudhoe Bay satellites; a small interest in TAPS; and exploration acreage in the National Petroleum Reserve Alaska and elsewhere.

Exxon Mobil Corp. ("Exxon") filed a lawsuit Friday March 24, 2000 to stop Phillip's acquisition of ARCO's Alaska assets. Exxon contends that it has the right of first refusal to purchase certain of ARCO's Alaska assets. This lawsuit could delay the pending sale of ARCO Alaska, Inc. to Phillips. The FCC is expected to wait for the outcome of the Exxon lawsuit before rendering its decision.

Should new discoveries or developments not materialize or the price of oil return to its prior depressed levels, the long term trend of continued decline in oil production from the Prudhoe Bay field area is inevitable with a corresponding adverse impact on the economy of the state, in general, and on demand for telecommunications and cable television services, and, therefore, on us, in particular.

We have, since our entry into the telecommunication marketplace, aggressively

marketed our services to seek a larger share of the available market. The customer base in Alaska is limited, however, with a small population of approximately 620,000 people. 42% of are located in the Anchorage area, 14% are located in the Fairbanks area, 5% are located in the Juneau area, and the rest are spread out over the vast reaches of Alaska. No assurance can be given that the driving forces in the Alaska economy, and in particular, oil production, will continue at levels to provide an environment for expanded economic activity.

No assurance can be given that oil companies doing business in Alaska will be successful in discovering new fields or further developing existing fields which are economic to develop and produce oil with access to the pipeline or other means of transport to market, even with the reduced level of royalties. The Company is not able to predict the effect of changes in the price and production volumes of North Slope oil or the acquisition of ARCO by BP Amoco and Phillips on Alaska's economy or on the Company. You should see Part I, Item 1. Business, Geographic Concentration and Alaska Economy for more information.

#### 66 SEASONALITY

Long-distance revenues have historically been highest in the summer months as a result of temporary population increases attributable to tourism and increased seasonal economic activity such as construction, commercial fishing, and oil and gas activities. Cable television revenues, on the other hand, are higher in the winter months because consumers tend to watch more television, and spend more time at home, during these months. Our local access services revenues are not expected to exhibit significant seasonality. Our Internet access services are expected to reflect seasonality trends similar to the cable television segment. Our ability to implement construction projects is reduced during the winter months because of cold temperatures, snow and short daylight hours.

#### YEAR 2000 COSTS

We initiated a company-wide program in 1998 to ensure that our date-sensitive information, telephony, cable, Internet and business systems, and certain other equipment would properly recognize the Year 2000 as a result of the century change on January 1, 2000. The program focused on the hardware, software, embedded chips, third-party vendors and suppliers as well as third-party networks that were associated with the identified systems. We substantially completed the program during third quarter 1999, and our systems did not experience any significant disruptions as a result of the century change. In total, we have expensed incremental remediation costs totaling \$2.3 million through December 31, 1999, with remaining incremental remediation costs in 2000 estimated at approximately \$400,000.

We did not defer any critical information technology projects because of our Year 2000 program efforts, which were addressed primarily through a dedicated team within our information technology group.

#### REGULATORY DEVELOPMENTS

You should see Part I, Item 1 Business, Regulation, Franchise Authorizations and Tariffs for more information about regulatory developments affecting us.

#### INFLATION

We do not believe that inflation has a significant effect on our operations.

#### Item 7A. Quantitative and qualitative disclosures about market risk

We are exposed to various types of market risk in the normal course of business, including the impact of interest rate changes. We do not hold derivatives for trading purposes.

Our Senior Holdings Loan carries interest rate risk. Amounts borrowed under this Agreement bear interest at Libor plus 1.0% to 2.5%, depending on the leverage ratio of Holdings and certain of its subsidiaries, or at the greater of the prime rate or the federal funds effective rate (as defined) plus 0.05%, in each case plus an additional 0.0% to 1.375%, depending on the leverage ratio of Holdings and certain of its subsidiaries. Should the Libor rate, the lenders' base rate or the leverage ratios change, our interest expense will increase or decrease accordingly. As of December 31, 1999, we have borrowed \$87.7 million subject to interest rate risk. On this amount, a 1% increase in the interest rate would cost us \$877,000 in additional gross interest cost on an annualized basis.

Our Fiber Facility carries interest rate risk. Amounts borrowed under this Agreement bear interest at Libor plus 3.0%, or at our choice, the lender's prime rate plus 1.75%. The interest rate will decline to Libor plus 2.5%-2.75%, or at our choice, the lender's prime rate plus 1.25%-1.5% when the loan balance is \$60 million or less. Should the Libor rate, the lenders' base rate or the leverage ratios change, our interest expense will increase or decrease accordingly. As of

December 31, 1999, we have borrowed \$71.7 million subject to interest rate risk. On this amount, a 1% increase in the interest rate would cost us \$717,000 in additional gross interest cost on an annualized basis.

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Item 8. Consolidated financial statements and supplementary data

Our consolidated financial statements are filed under this Item, beginning on Page 69. The financial statement schedules required under Regulation S-X are filed pursuant to Item 14 of this Report.

Item 9. Changes in and disagreements with accountants on accounting and financial disclosure.

None.

PART III

Incorporated herein by reference from our Proxy Statement for our 2000 Annual Shareholders' meeting.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
General Communication, Inc.:

We have audited the accompanying consolidated balance sheets of General Communication, Inc. and Subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements referred to above present fairly, in all material respects, the financial position of General Communication, Inc. and Subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999 in conformity with generally accepted accounting principles.

/s/  
KPMG LLP

Anchorage, Alaska  
March 10, 2000

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<TABLE>

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES  
Consolidated Balance Sheets

<CAPTION>

ASSETS	December 31,	
-----	1999	1998
	(Amounts in thousands)	
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	\$ 13,734	12,008
	-----	-----
Receivables:		
Trade	48,145	42,219
Income taxes	---	1,965
Other	269	412
	-----	-----
	48,414	44,596

Less allowance for doubtful receivables	2,833	887
Net receivables	45,581	43,709
Prepaid and other current assets	2,224	2,023
Deferred income taxes, net	2,972	4,244
Inventories	3,754	2,838
Notes receivable	449	650
Refundable deposit	9,100	---
Total current assets	77,814	65,472
Property and equipment in service, at cost:		
Land and buildings	1,199	1,109
Telephony distribution systems	269,117	144,045
Cable television distribution systems	96,620	89,736
Support equipment	42,576	42,056
Transportation equipment	2,259	2,183
Property and equipment under capital leases	2,819	2,819
Less accumulated depreciation	414,590	281,948
Net property and equipment in service	111,828	82,972
Construction in progress	302,762	198,976
Net property and equipment	2,898	119,645
Net property and equipment	305,660	318,621
Cable franchise agreements, net of amortization of \$16,347 and \$11,184 at December 31, 1999 and 1998, respectively	190,145	195,308
Goodwill, net of amortization of \$4,563 and \$3,362 at December 31, 1999 and 1998, respectively	41,391	42,592
Other intangible assets, net of amortization of \$269 and \$95 at December 31, 1999 and 1998, respectively	4,402	3,282
Deferred loan and Senior Notes costs, net of amortization	8,863	9,877
Transponder deposit	---	9,100
Notes receivable	2,067	1,432
Other assets, at cost, net of amortization	12,809	3,761
Total other assets	259,677	265,352
Total assets	\$ 643,151	649,445

</TABLE>

See accompanying notes to consolidated financial statements.

(Continued)

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<TABLE>

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES  
Consolidated Balance Sheets  
(Continued)

<CAPTION>

	December 31,	
	1999	1998
	(Amounts in thousands)	
	<C>	<C>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ ---	1,799
Current maturities of obligations under capital leases	574	511
Accounts payable	25,321	27,550
Accrued interest	7,985	8,072
Accrued payroll and payroll related obligations	8,601	6,555
Deferred revenue	8,173	6,371
Accrued liabilities	3,152	3,197
Subscriber deposits and other current liabilities	1,314	2,258
Total current liabilities	55,120	56,313
Long-term debt, excluding current maturities	339,400	349,858
Obligations under capital leases, excluding current maturities	747	1,189
Obligations under capital leases due to related party, excluding current maturities	353	486
Deferred income taxes, net of deferred income tax benefit	30,861	38,275
Other liabilities	4,210	3,317
Total liabilities	430,691	449,438

Preferred stock. \$1,000 par value, authorized 1,000,000 shares; issued

and outstanding 20,000 and 0 shares at December 31, 1999 and 1998, respectively; convertible into Class A common stock at \$5.55 per share of Class A common stock, redemption price at December 31, 1999 of \$1,058	19,912	---
<hr/>		
Stockholders' equity:		
Common stock (no par):		
Class A. Authorized 100,000,000 shares; issued and outstanding 46,869,671 and 45,895,415 shares at December 31, 1999 and 1998, respectively	176,740	172,708
Class B. Authorized 10,000,000 shares; issued and outstanding 4,048,480 and 4,060,620 shares at December 31, 1999 and 1998, respectively; convertible on a share-per-share basis into Class A common stock	3,422	3,432
Less cost of 347,958 Class A common shares held in treasury at December 31, 1999 and 1998	(1,607)	(1,607)
Paid-in capital	6,343	5,609
Notes receivable issued upon stock option exercise	(2,167)	(637)
Retained earnings	9,817	20,502
<hr/>		
Total stockholders' equity	192,548	200,007
<hr/>		
Commitments and contingencies		
Total liabilities and stockholders' equity	\$ 643,151	649,445
<hr/>		

</TABLE>

See accompanying notes to consolidated financial statements.

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<TABLE>

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES  
Consolidated Statements of Operations  
Years ended December 31, 1999, 1998 and 1997

<CAPTION>

	1999	1998	1997
	-----	-----	-----
	(Amounts in thousands except per share		
amounts)			
<S>	<C>	<C>	<C>
Revenues	\$ 279,179	246,795	
223,809			
Cost of sales and services	122,467	116,073	
111,077			
Selling, general and administrative expenses	98,282	89,833	
73,583			
Depreciation and amortization expense	42,680	32,045	
23,767			
<hr/>			
Operating income	15,750	8,844	
15,382			
Interest expense, net	30,616	19,764	
17,617			
<hr/>			
Net loss before income taxes, extraordinary item and cumulative effect of a change in accounting principle	(14,866)	(10,920)	
(2,235)			
Income tax benefit	(5,683)	(4,123)	
(573)			
<hr/>			
Net loss before extraordinary item and cumulative effect of a change in accounting principle	(9,183)	(6,797)	
(1,662)			
Loss on early extinguishment of debt, net of income tax benefit of \$180	---	---	
521			

Cumulative effect of a change in accounting principle,

net of income tax benefit of \$245	344	---	--
-	-----	-----	-----
-----			
Net loss (2,183)	\$ (9,527)	(6,797)	
=====	=====	=====	
Basic loss per common share:			
Net loss before extraordinary item and cumulative effect of a change in accounting principle (0.04)	\$ (0.20)	(0.14)	
Extraordinary item (0.01)	0.00	0.00	
Cumulative effect of a change in accounting principle 0.00	(0.01)	0.00	
-----	-----	-----	-----
Net loss (0.05)	\$ (0.21)	(0.14)	
=====	=====	=====	
Diluted loss per common share:			
Net loss before extraordinary item and cumulative effect of a change in accounting principle (0.04)	\$ (0.20)	(0.14)	
Extraordinary item (0.01)	0.00	0.00	
Cumulative effect of a change in accounting principle 0.00	(0.01)	0.00	
-----	-----	-----	-----
Net loss (0.05)	\$ (0.21)	(0.14)	
=====	=====	=====	

</TABLE>

See accompanying notes to consolidated financial statements.

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<TABLE>

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES  
Consolidated Statements of Stockholders' Equity  
Years ended December 31, 1999, 1998 and 1997

<CAPTION>

	Class A Common Stock	Class B Common Stock	Class A Shares Held in Treasury	Paid-in Capital	Notes Issued
Receivable Retained (Amounts in thousands) Earnings					
-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>		<C>
<C>					
Balances at December 31, 1996	\$113,421	3,432	(1,010)	4,229	---
29,482					
Net loss (2,183)	---	---	---	---	---
Tax effect of excess stock compensation expense for tax purposes over amounts recognized for financial reporting purposes	---	---	---	65	---
-----					
Shares issued upon public offering, net of issuance costs of \$4,024	46,726	---	---	---	---
-----					
Shares issued upon conversion of convertible note net of fees of \$16	9,983	---	---	---	---
-----					
Shares acquired pursuant to officer deferred compensation agreement	---	---	(29)	---	---
-----					
Shares issued under stock option plan	192	---	---	63	---
-----					
Shares issued and issuable under officer stock option agreements	---	---	---	68	---
-----	-----	-----	-----	-----	-----
-----					

Balances at December 31, 1997	170,322	3,432	(1,039)	4,425	---
27,299					
Net loss	---	---	---	---	---
(6,797)					
Tax effect of excess stock compensation expense for tax purposes over amounts recognized for financial reporting purposes	---	---	---	157	---
---					
Shares purchased and held in Treasury	---	---	(568)	---	---
---					
Shares issued under stock option plan and notes issued upon stock option exercise	827	---	---	319	---
(637)					
Shares issued to Employee Stock Purchase Plan	1,574	---	---	---	---
---					
Warrants issued	---	---	---	708	---
---					
Stock offering issuance costs	(15)	---	---	---	---
---					
-----					
Balances at December 31, 1998	172,708	3,432	(1,607)	5,609	(637)
20,502					
Net loss	---	---	---	---	---
(9,527)					
Tax effect of excess stock compensation expense for tax purposes over amounts recognized for financial reporting purposes	---	---	---	211	---
---					
Conversion of Class B to Class A	10	(10)	---	---	---
---					
Shares issued and issuable under stock option plan and notes issued upon stock option exercise	1,595	---	---	431	(1,389)
---					
Shares issued under officer stock option agreement and note issued upon stock option exercise	38	---	---	---	(141)
---					
Shares issued to Employee Stock Purchase Plan	1,770	---	---	---	---
---					
Warrants issued	---	---	---	92	---
---					
Shares issued upon acquisition of customer base	619	---	---	---	---
---					
Preferred stock dividends	---	---	---	---	---
(1,158)					
-----					
Balances at December 31, 1999	\$176,740	3,422	(1,607)	6,343	(2,167)
9,817					

</TABLE>

See accompanying notes to consolidated financial statements.

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GENERAL COMMUNICATION, INC. AND SUBSIDIARIES			
Consolidated Statements of Cash Flows			
Years ended December 31, 1999, 1998 and 1997			
<CAPTION>	1999	1998	---
1997	-----	-----	----
-----			
<S>	<C>	(Amounts in thousands)	<C>
Cash flows from operating activities:			<C>
Net loss	\$ (9,527)	(6,797)	
(2,183)			
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	42,680	32,045	
23,767			
Amortization charged to costs of sales and service and selling, general and administrative	1,770	1,147	
47			
Deferred income tax (benefit) expense	(5,928)	(744)	
4,410			
Deferred compensation and compensatory stock options	675	376	
477			
Non-cash cost of sales	3,703	---	
---			

473	Bad debt expense (recovery), net of write-offs	1,946	(183)	
	Employee Stock Purchase Plan expense funded with Class A common stock issued and issuable by General Communication, Inc.	2,448	2,278	
---	Write-off of unamortized start-up costs	589	---	
---	Write-off of deferred debt issuance costs upon modification of Senior Holdings Loan	472	---	
---	Loss on early extinguishment of debt	---	---	
701	Warrants issued	42	---	
---	Other noncash income and expense items	(114)	154	
(54)	Change in operating assets and liabilities	(5,413)	(5,347)	
3,202				
-----		-----	-----	-----
	Net cash provided by operating activities	33,343	22,929	
30,840		-----	-----	-----
-----				
	Cash flows from investing activities:			
	Acquisition of business, net of cash acquired	---	---	
(547)	Purchases of property and equipment, including construction period interest	(36,573)	(148,973)	
(64,644)	Restricted cash investment	---	39,406	
(39,406)	Purchases of other assets and intangible assets	(1,236)	(4,287)	
(1,339)	Payment of undersea fiber optic cable deposit	---	---	
(9,094)	Notes receivable issued	(952)	(1,715)	
(698)	Payments received on notes receivable	653	1,769	
32		-----	-----	-----
-----				
	Net cash used in investing activities	(38,108)	(113,800)	
(115,696)		-----	-----	-----
-----				
	Cash flows from financing activities:			
	Long-term borrowings - senior notes	---	---	
180,000	Long-term borrowings - bank debt	13,776	103,224	
88,305	Repayments of long-term borrowings and capital lease obligations	(26,620)	(2,017)	
(231,021)	Proceeds from equity offering	20,000	---	
50,750	Proceeds from common stock issuance	103	190	
192	Payment of debt and stock issuance costs	(768)	(1,706)	
(13,642)	Proceeds from warrant issuance	---	708	
---	Purchase of treasury stock	---	(568)	
(29)		-----	-----	-----
-----				
	Net cash provided by financing activities	6,491	99,831	
74,555		-----	-----	-----
-----				
	Net increase (decrease) in cash and cash equivalents	1,726	8,960	
(10,301)				
	Cash and cash equivalents at beginning of year	12,008	3,048	
13,349		-----	-----	-----
-----				
	Cash and cash equivalents at end of year	\$ 13,734	12,008	
3,048		=====	=====	
=====				

</TABLE>

See accompanying notes to consolidated financial statements.



GENERAL COMMUNICATION, INC.  
Notes to Consolidated Financial Statements

## (1) Business and Summary of Significant Accounting Principles

## (a) Business

General Communication, Inc. ("GCI"), an Alaska corporation, was incorporated in 1979. GCI and its direct and indirect subsidiaries (collectively, the "Company") offer the following services:

- Long-distance telephone service between Anchorage, Fairbanks, Juneau, and other communities in Alaska and the remaining United States and foreign countries,
- Cable television services throughout Alaska,
- Facilities-based competitive local access services in Anchorage, Alaska,
- Internet services,
- Termination of traffic in Alaska for certain common carriers,
- Interstate and intrastate private line services,
- Managed services to certain commercial customers,
- Sales and services of dedicated communications systems and related equipment,
- Private network point-to-point data and voice transmission services between Alaska, Hawaii and the western contiguous United States are offered and
- Owns and leases capacity on two undersea fiber optic cables used in the transmission of interstate private line, switched message long-distance and Internet services between Alaska and the remaining United States and foreign countries.

## (b) Principles of Consolidation

The consolidated financial statements include the accounts of GCI, its wholly-owned subsidiary GCI, Inc., GCI, Inc.'s wholly-owned subsidiary GCI Holdings, Inc., GCI Holding Inc.'s wholly-owned subsidiaries GCI Communication Corp., GCI Communication Services, Inc. and GCI Cable, Inc., GCI Communication Services, Inc.'s wholly-owned subsidiary GCI Leasing Co., Inc., GCI Transport Company, Inc., GCI Transport Co., Inc.'s wholly-owned subsidiaries GCI Fiber Co., Inc. and Fiber Hold Company, Inc. and GCI Fiber Co., Inc.'s and Fiber Hold Company, Inc.'s wholly-owned partnership Alaska United Fiber System Partnership ("Alaska United"). All significant intercompany balances and transactions have been eliminated in consolidation.

## (c) Net Loss Per Common Share

&lt;TABLE&gt;

Net loss used to calculate basic and diluted net loss per common share is increased by preferred stock dividends of \$1,158,000 for the year ended December 31, 1999. Shares used to calculate net loss per common share consist of the following (amounts in thousands):

&lt;CAPTION&gt;

	1999	1998	1997
	-----	-----	-----
--			
<S>	<C>	<C>	<C>
Weighted average common shares outstanding	50,326	49,186	44,924
	=====	=====	

=====

&lt;/TABLE&gt;

&lt;TABLE&gt;

Common equivalent shares outstanding which are anti-dilutive for purposes of calculating the net loss per common share for the years ended December 31, 1999, 1998 and 1997 and are not included in the diluted net loss per share calculation consist of the following (amounts in thousands):

&lt;CAPTION&gt;

	1999	1998	1997
	-----	-----	-----
--			
<S>	<C>	<C>	<C>
Common equivalent shares outstanding	587	521	816
	=====	=====	

=====

&lt;/TABLE&gt;

&lt;TABLE&gt;

Weighted average shares associated with outstanding stock options for the years ended December 31, 1999, 1998 and 1997 which have been excluded from the diluted loss per share calculations because the options' exercise price was greater than the average market price of the common shares consist of the following (amounts in thousands):

<CAPTION>

	1999	1998	1997
	-----	-----	-----
--			
<S>	<C>	<C>	<C>
Weighted average shares associated with outstanding stock options	2,182	2,071	1,073
	=====	=====	

=====

</TABLE>

(d) Preferred and Common Stock

<TABLE>

Following is the statement of preferred and common stock at December 31, 1999, 1998 and 1997:

<CAPTION>

(Shares, in thousands)	Preferred	Common Stock	
	Stock	Class A	Class B
<S>	<C>	<C>	<C>
Balances at December 31, 1996	---	36,587	4,074
Class B shares converted to Class A	---	11	(11)
Shares issued upon public offering	---	7,000	---
Shares issued upon conversion of convertible note	---	1,538	---
Shares issued under stock option plan	---	57	---
Shares issued and issuable under officer stock option agreements	---	86	---
	-----	-----	-----
Balances at December 31, 1997	---	45,279	4,063
Class B shares converted to Class A	---	2	(2)
Shares issued under stock option plan	---	315	---
Shares issued to Employee Stock Purchase Plan	---	299	---
	-----	-----	-----
Balances at December 31, 1998	---	45,895	4,061
Class B shares converted to Class A	---	13	(13)
Shares issued under stock option plan	---	417	---
Shares issued under officer stock option agreements	---	50	---
Shares issued to Employee Stock Purchase Plan	---	395	---
Shares issued upon acquisition of customer base	---	100	---
Shares issued under Preferred Stock Agreement	20	---	---
	-----	-----	-----
Balances at December 31, 1999	20	46,870	4,048
	=====	=====	=====

</TABLE>

(e) Cash and Cash Equivalents  
Cash equivalents consist of short-term, highly liquid investments that are readily convertible into cash.

(f) Inventories  
Inventory of merchandise for resale and parts is stated at the lower of cost or market. Cost is determined using the average cost method.

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GENERAL COMMUNICATION, INC.

Notes to Consolidated Financial Statements

(g) Property and Equipment  
Property and equipment is stated at cost. Construction costs of facilities are capitalized. Equipment financed under capital leases is recorded at the lower of fair market value or the present value of future minimum lease payments. Construction in progress represents distribution systems and support equipment not placed in service on December 31, 1999; management intends to place this equipment in service during 2000.

Depreciation is computed on a straight-line basis based upon the shorter of the estimated useful lives of the assets or the lease term, if applicable, in the following ranges:

Asset Category	Asset Lives
-----	-----
Telephony distribution systems	12-20 years

Cable television distribution systems	10 years
Support equipment	5-10 years
Transportation equipment	5 years
Property and equipment under capital leases	5-15 years

Repairs and maintenance are charged to expense as incurred. Expenditures for major renewals and betterments are capitalized. Gains or losses are recognized at the time of ordinary retirements, sales or other dispositions of property.

(h) Intangible Assets

Intangible assets are valued at unamortized cost. Management reviews the valuation and amortization of intangible assets on a periodic basis, taking into consideration any events or circumstances that might indicate diminished value. The assessment of the recoverability is based on whether the asset can be recovered through undiscounted future cash flows.

Cable franchise agreements represent certain perpetual operating rights to provide cable services and are being amortized on a straight-line basis over 40 years.

Goodwill represents the excess of cost over fair value of net assets acquired and is being amortized on a straight-line basis over periods of 20 to 40 years.

The cost of the Company's PCS license and related financing costs have been capitalized as an intangible asset. Once the associated assets are placed into service, the recorded cost of the license and related financing costs will begin being amortized over a 40-year period using the straight-line method.

(i) Deferred Loan and Senior Notes Costs

Debt and Senior Notes issuance costs are deferred and amortized using the straight-line method, which approximates the interest method, over the term of the related debt and notes. Through January 1999 (the end of the construction period of the undersea fiber optic cable) issuance costs were amortized to Construction in Progress (see note 9). Commencing February 1999 (the month the fiber optic cable was placed in service) the issuance costs are being amortized to amortization expense.

(j) Other Assets

Other assets are recorded at cost and are amortized on a straight-line basis over periods of 2-20 years.

(k) Revenue from Services and Products

Revenues generated from long-distance and managed services are recognized when the services are provided. Revenues from the sale of equipment are recognized at the time the equipment is delivered or installed. Technical services revenues are derived primarily from maintenance contracts on equipment and are recognized on a prorated basis over the term of the contract. Cable television, local service, Internet service and private line telecommunication revenues are billed in advance and are recognized as the associated service is provided. Other revenues are recognized when the service is provided.

(l) Research and Development and Advertising Expense

The Company expenses advertising and research and development costs as incurred. Advertising expenses were approximately \$4,574,000, \$5,028,000 and \$2,897,000 for the years ended 1999, 1998 and 1997, respectively. The Company had no research and development costs for the years ended December 31, 1999, 1998 and 1997.

(m) Interest Expense

Interest costs incurred during the construction period of significant capital projects are capitalized. Interest costs capitalized by the Company totaled \$1,260,000, \$7,764,000, and \$1,886,000 during the years ended December 31, 1999, 1998 and 1997.

(n) Cumulative Effect of a Change in Accounting Principle

The American Institute of Certified Public Accountants issued Statement of Position ("SOP") 98-5, "Reporting on the Costs of Start-Up Activities", which provides guidance on the financial reporting of start-up costs and organization costs and requires costs of start-up activities and organization costs to be expensed as incurred. SOP 98-5 is effective for financial

statements for fiscal years beginning after December 15, 1998. Management of the Company adopted SOP 98-5 in the first quarter of 1999 resulting in the recognition of a one-time expense of \$344,000 (net of income tax benefit of \$245,000) associated with the write-off of unamortized start-up costs. Pro forma net loss and net loss per common share for the years ended December 31, 1998 and 1997 approximate amounts reflected in the accompanying consolidated financial statements.

(o) Income Taxes

Income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for their future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable earnings in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are recognized to the extent that the benefits are more likely to be realized than not.

(p) Stock Option Plan

The Company accounts for its stock option plan in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. The Company has adopted SFAS 123, "Accounting for Stock-Based Compensation," ("SFAS 123") which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method defined in SFAS 123 had been applied. The Company has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of SFAS 123.

(q) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(r) Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents and accounts receivable. Excess cash is invested in high quality short-term liquid money instruments issued by highly rated financial institutions. At December 31, 1999 and 1998, substantially all of the Company's cash and cash equivalents were invested in short-term liquid money instruments. The Company's customers are located primarily throughout Alaska. As a result of this geographic concentration, the Company's growth and operations depend upon economic conditions in Alaska. The economy of Alaska is dependent upon the natural resources industries, and in particular oil production, as well as tourism, government, and United States military spending. Though limited to one geographical area, the concentration of credit risk with respect to the Company's receivables is minimized due to the large number of customers, individually small balances, short payment terms and deposit requirements for certain product lines.

(s) Fair Value of Financial Instruments

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," requires disclosure of the fair value of financial instruments for which it is practicable to estimate that value. SFAS No. 107 specifically excludes certain items from its disclosure requirements. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

(t) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

- (u) Year 2000 Costs  
The Company charged incremental Year 2000 assessment and remediation costs to expense as incurred.
- (v) Reclassifications  
Reclassifications have been made to the 1997 and 1998 financial statements to make them comparable with the 1999 presentation.

- (2) Acquisition  
Effective December 2, 1997, the Company purchased all of the outstanding shares of Astrolabe Group, Inc. The \$1,324,000 purchase was accounted for using the purchase method. The purchase price consisted of a payment of \$600,000 and the issuance of options to purchase 100,000 shares of GCI's Class A common stock for \$.01 per share, expiring December 2, 2007. Options were exercised for 10,000 shares in 1999.

GENERAL COMMUNICATION, INC.  
Notes to Consolidated Financial Statements

- (3) Consolidated Statements of Cash Flows Supplemental Disclosures

<TABLE>

Changes in operating assets and liabilities consist of (amounts in thousands):

<CAPTION>

Year ended December 31,	1999	1998	1997
<S>	<C>	<C>	<C>
Increase in accounts receivable	\$ (5,783)	(9,054)	(1,540)
(Increase) decrease in income tax receivable	1,965	490	(3,726)
(Increase) decrease in prepaid and other current assets	(235)	388	(274)
(Increase) decrease in inventories	(767)	286	(575)
Increase (decrease) in accounts payable	(2,229)	2,585	1,050
Increase (decrease) in accrued liabilities	(95)	(1,914)	938
Increase in accrued payroll and payroll related obligations	1,368	171	1,850
Increase (decrease) in accrued income taxes	---	(111)	111
Increase in deferred revenue	1,802	1,128	528
Increase (decrease) in accrued interest	(87)	423	4,941
Increase in subscriber deposits and other current liabilities	(944)	274	(79)
Decrease in components of other long-term liabilities	(408)	(13)	(22)
	\$ (5,413)	(5,347)	3,202

</TABLE>

The acquisition of a business in the year ended December 31, 1997 (see note 2), net of cash acquired consists of (amounts in thousands):

Fair value of assets acquired, net of liabilities assumed	\$ 1,259
Deferred credit	(712)
Net cash used to acquire businesses	\$ 547

The holders of \$10 million of convertible subordinated notes exercised their conversion rights in January 1997 resulting in the exchange of such notes for 1,538,457 shares of the Company's Class A common stock.

Net income tax refunds received totaled \$1,965,000, \$4,243,000 and \$1,546,000 during the years ended 1999, 1998 and 1997, respectively.

Interest paid totaled approximately \$32,900,000, \$29,630,000 and \$17,709,000 during the years ended 1999, 1998 and 1997, respectively.

The Company recorded \$211,000, \$157,000 and \$65,000 during the years ended 1999, 1998 and 1997, respectively, in paid-in capital in recognition of the income tax effect of excess stock compensation expense for tax purposes over amounts recognized for financial reporting

purposes.

During the years ended December 31, 1999 and 1998 the Company funded the employer matching portion of Employee Stock Purchase Plan contributions by issuing GCI Class A Common Stock valued at \$1,770,000 and \$1,574,000, respectively.

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GENERAL COMMUNICATION, INC.

Notes to Consolidated Financial Statements

(4) Notes Receivable

<TABLE>

Notes receivable consist of the following (amounts in thousands):

<CAPTION>

	December 31,	
	1999	1998
<S>	<C>	<C>
Notes receivable from officers bearing interest up to 9% or at the rate paid by the Company on its senior indebtedness, unsecured and secured by personal residences and Company common stock, due through December 1, 2004	\$ 3,349	1,851
Notes receivable from others bearing interest up to 8.25% or at the rate paid by the Company on its senior indebtedness, unsecured and secured by property and equipment; due through December 31, 2004	942	613
Interest receivable	392	256
Total notes receivable	4,683	2,719
Less notes receivable issued upon stock option exercise, classified as a component of stockholders' equity	2,167	637
Less current portion, including current interest receivable	449	650
Long-term portion, including long-term interest receivable	\$ 2,067	1,432

</TABLE>

(5) Long-term Debt

<TABLE>

Long-term debt consists of the following (amounts in thousands):

<CAPTION>

	December 31,	
	1999	1998
<S>	<C>	<C>
Senior Notes (a)	\$ 180,000	180,000
Senior Holdings Loan (b)	87,700	106,700
Fiber Facility (c)	71,700	61,224
Undersea Fiber and Equipment Loan Agreement (d)	---	3,733
	339,400	351,657
Less current maturities	---	1,799
Long-term debt, excluding current maturities	\$ 339,400	349,858

</TABLE>

- (a) On August 1, 1997 GCI, Inc. issued \$180,000,000 of 9.75% senior notes due 2007 ("Senior Notes"). The Senior Notes were issued at face value. Net proceeds to GCI, Inc. after deducting underwriting discounts and commissions totaled \$174,600,000. Issuance costs of \$6,496,000 are being amortized to amortization expense over the term of the Senior Notes.

The Senior Notes are not redeemable prior to August 1, 2002. After August 1, 2002 the Senior Notes are redeemable at the option of GCI, Inc. under certain conditions and at stated redemption prices. The Senior Notes include limitations on additional indebtedness and prohibit payment of dividends, payments for the purchase, redemption, acquisition or retirement of GCI, Inc.'s stock, payments for early retirement of debt subordinate to the note, liens on property, and asset sales (excluding sales of Alaska United assets). GCI, Inc. was in compliance with all covenants during the year ending December 31, 1999. The Senior Notes are unsecured obligations of the Company.

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GENERAL COMMUNICATION, INC.

Notes to Consolidated Financial Statements

Net proceeds from the stock (see note 8) and Senior Note

offerings and initial draws on the new Senior Holdings Loan (see note 5(b)) facilities were used to repay borrowings outstanding under the Company's then existing credit facilities and to provide initial funding for construction of the Alaska United undersea fiber optic cable (see notes 5(c) and 9).

- (b) The GCI Holdings, Inc., \$200,000,000 (\$150,000,000 as amended) and \$50,000,000 credit facilities ("Senior Holdings Loan") mature on June 30, 2005. The Senior Holdings Loan facilities were amended in April 1999 (see below) and bear interest, as amended, at either Libor plus 1.00% to 2.50%, depending on the leverage ratio of Holdings and certain of its subsidiaries, or at the greater of the prime rate or the federal funds effective rate (as defined) plus 0.05%, in each case plus an additional 0.00% to 1.375%, depending on the leverage ratio of Holdings and certain of its subsidiaries. Borrowings under the Senior Holdings Loan facilities totaled \$87,700,000 and \$106,700,000 at December 31, 1999 and 1998, respectively. The Company is required to pay a commitment fee equal to 0.50% per annum on the unused portion of the commitment. Commitment fee expense on the Senior Holdings Loan totaled \$533,000, \$512,000 and \$240,000 during the years ended December 31, 1999, 1998 and 1997, respectively.

On April 13, 1999, the Company amended its Holdings credit facilities. These amendments contained, among other things, provisions for payment of a one-time amendment fee of 0.25% of the aggregate commitment, an increase in the commitment fee by 0.125% per annum on the unused portion of the commitment, and an increase in the interest rate of 0.25%. The amended facilities reduce the aggregate commitment by \$50 million to \$200 million, and limit capital expenditures to \$35 million in 1999 and \$35 million in 2000 with no limits thereafter (excluding amounts paid for the Alaska United fiber optic cable system (see note 9) and to be paid for purchased satellite transponder facilities, (see note 13)). During the year ended December 31, 1999 the Company's capital expenditures net of amounts paid for the Alaska United fiber optic cable system were \$25.4 million. Pursuant to the Financial Accounting Standards Board Emerging Issues Task Force Issue 98-14, "Debtor's Accounting for Changes in Line-of-Credit or Revolving Debt Arrangements," the Company recorded as additional interest expense \$472,000 of deferred financing costs in the second quarter of 1999 resulting from the reduced borrowing capacity. In connection with the April 1999 amendment, the Company agreed to pay all fees and expenses of its lenders, including an amendment fee of 0.25% of the aggregate commitment, totaling \$530,000.

Proceeds of \$19 million from the Preferred Stock issuance (see note 7) were used to reduce the Senior Holdings Loan outstanding indebtedness.

<TABLE>

While Holdings may elect at any time to reduce amounts due and available under the Senior Holdings Loan facilities, a mandatory prepayment is required each quarter if the outstanding borrowings at the following dates of payment exceed the allowable borrowings using the following percentages:

<CAPTION>

Date Range of Quarterly Payments	Percentage of Reduction of Outstanding Facilities
<S>	<C>
September 30, 2000 through December 31, 2001	3.750%
March 31, 2002 through December 31, 2003	5.000%
March 31, 2004 through December 31, 2004	5.625%
March 31, 2005	7.500%
July 31, 2005	7.500% and all remaining outstanding balances

</TABLE>

The facilities contain, among others, covenants requiring maintenance of specific levels of operating cash flow to indebtedness and to interest expense, and limitations on acquisitions and additional indebtedness. The facilities prohibit any direct or indirect distribution, dividend, redemption or other payment to any person on account of any general or limited partnership interest in, or shares of capital stock or other securities of Holdings or any of its subsidiaries. Holdings was in compliance with all Senior Holdings Loan facilities covenants

during the year ended December 31, 1999.

Essentially all of Holdings' assets as well as a pledge of Holdings' stock by GCI, Inc. collateralize the Senior Holdings Loan facilities.

\$3.4 million of the Senior Holdings Loan facilities have been used to provide a letter of credit to secure payment of certain access charges associated with the Company's provision of telecommunications services within the State of Alaska.

In connection with the funding of the Senior Holdings Loan facilities, Holdings paid bank fees and other expenses of approximately \$3,033,000 that are being amortized to amortization expense over the life of the agreement.

- (c) On January 27, 1998, the Company, through Alaska United, closed a \$75,000,000 project finance facility ("Fiber Facility") to construct a fiber optic cable system connecting Anchorage, Fairbanks, Valdez, Whittier, Juneau and Seattle as further described in note 9. Borrowings under the Fiber Facility totaled \$71,700,000 and \$61,224,000 at December 31, 1999 and 1998, respectively. The Fiber Facility bears interest at either Libor plus 3.0%, or at the Company's choice, the lender's prime rate plus 1.75%. The interest rate will decline to Libor plus 2.5%-2.75%, or at the Company's choice, the lender's prime rate plus 1.25%-1.5% when the loan balance is \$60,000,000 or less. The Fiber Facility is a 10-year term loan that is interest only for the first 5 years. The facility can be extended to a 12-year term loan at any time between the second and fifth anniversary of closing the facility if the Company can demonstrate projected revenues from certain capacity commitments will be sufficient to pay all operating costs, and interest and principal installments based on the extended maturity.

The Fiber Facility contains, among others, covenants requiring certain intercompany loans and advances in order to maintain specific levels of cash flow necessary to pay operating costs and interest and principal installments. Alaska United was in compliance with all covenants during the year ended December 31, 1999.

All of Alaska United's assets, as well as a pledge of the partnership interests' owning Alaska United, collateralize the Fiber Facility.

In connection with the funding of the Fiber Facility, Alaska United paid bank fees and other expenses of \$2,183,000 that are being amortized over the life of the agreement. Through January 1999 (the end of the construction period of the undersea fiber optic cable system) issuance costs were amortized to Construction in Progress. Commencing February 1999 (the month the fiber optic cable was placed in service) the issuance costs are being amortized to amortization expense.

- (d) On December 31, 1992, Leasing Company entered into a \$12,000,000 loan agreement ("Undersea Fiber and Equipment Loan Agreement"), of which approximately \$9,000,000 of the proceeds were used to acquire capacity on the undersea fiber optic cable system linking Seward, Alaska and Pacific City, Oregon. Concurrently, Leasing Company leased the capacity under a ten year all events, take or pay, contract with MCI (now MCI WorldCom), who subleased the capacity back to the Company. The lease and sublease agreements provide for equivalent terms of 10 years and identical monthly payments of \$200,000. The proceeds of the lease agreement with MCI were pledged as primary security for the financing. The loan

agreement provides for monthly payments of \$170,000 including principal and interest through the earlier of January 1, 2003, or until repaid. The loan agreement provides for interest at the prime rate less one-quarter percent. Additional collateral includes substantially all of the assets of Leasing Company including the fiber capacity and a security interest in all of its outstanding stock. MCI has a second position security interest in the assets of Leasing Company. The obligation was fully paid and the lease and sublease were cancelled at December 31, 1999.

- (e) GCI Cable entered into a credit facility totaling \$205,000,000 effective October 31, 1996, associated with the acquisition of



the Cable Companies described in the Company's annual report on Form 10-K for the year ended December 31, 1998. In August 1997, the Senior GCI Cable Loan was repaid using proceeds from the Senior Notes (see note 5(a)) and the Senior Holdings Loan (see note 5(b)).

In connection with the funding of the loan agreement, GCI Cable, Inc. paid bank fees and other expenses of approximately \$764,000 in 1996. The unamortized portion of these bank fees and other expenses (net of income tax benefit of \$180,000) was recognized as an extraordinary loss on the early extinguishment of debt in 1997.

- (f) The Company entered into a \$62,500,000 interim telephony credit facility with its senior lender during April 1996. In August 1997, the Credit Agreement was repaid using proceeds from the Senior Notes (see note 5(a)) and the Senior GCI Holdings Loan (see note 5(b)).
- (g) GCI issued convertible subordinated notes totaling \$10,000,000 in connection with the acquisition of the Cable Companies described in the Company's annual report on Form 10-K for the year ended December 31, 1998. During January 1997, the holders of the GCI subordinated notes exercised a conversion option that allowed them to exchange their notes for GCI Class A common shares at a predetermined conversion price of \$6.50 per share. As a result, the former note holders received 1,538,457 shares of GCI Class A common stock.
- (h) As consideration for MCI's (now MCI WorldCom) role in enabling Leasing Company to finance and acquire the undersea fiber optic cable capacity described at note 5(d) above, Leasing Company agreed to pay MCI \$2,040,000 in sixty monthly payments of \$34,000. For financial statement reporting purposes, the obligation was recorded at its remaining present value, using a discount rate of 10% per annum. The agreement was secured by a second position security interest in the assets of Leasing Company. The obligation was fully paid at December 31, 1997.

As of December 31, 1999 maturities of long-term debt were as follows (amounts in thousands):

Year ending December 31,	
2000	\$ ---
2001	---
2002	---
2003	26,986
2004	59,286
2005 and thereafter	253,128
	-----
	\$ 339,400
	=====

(6) Income Taxes

<TABLE>

Total income tax benefit was allocated as follows (amounts in thousands):

<CAPTION>

	Years ended December 31,		
	1999	1998	1997
	-----	-----	-----
<S>	<C>	<C>	<C>
Loss from continuing operations	\$ (5,928)	(4,123)	(573)
Cumulative effect	245	---	---
Extraordinary item	---	---	(180)
	-----	-----	-----
	(5,683)	(4,123)	(753)
Stockholders' equity, for stock option compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	(211)	(157)	(65)
	-----	-----	-----
	\$ (5,894)	(4,280)	(818)
	=====	=====	=====

</TABLE>

<TABLE>

Income tax benefit consists of the following (amounts in thousands):

<CAPTION>

	Years ended December 31,		
	1999	1998	1997
	-----	-----	-----

<S>	<C>	<C>	<C>
Current tax benefit:			
Federal taxes	\$ ---	(2,858)	(4,333)
State taxes	---	(521)	(830)
	---	(3,379)	(5,163)
Deferred tax benefit:			
Federal taxes	(4,808)	(629)	3,800
State taxes	(876)	(115)	610
	(5,683)	(744)	4,410
	\$ (5,683)	(4,123)	(753)

</TABLE>

<TABLE>

Total income tax benefit differed from the "expected" income tax benefit determined by applying the statutory federal income tax rate of 34% as follows (amounts in thousands):

<CAPTION>

	Years ended December 31,		
	1999	1998	1997
<S>	<C>	<C>	<C>
"Expected" statutory tax benefit	\$ (6,496)	(3,713)	(997)
State income taxes, net of federal benefit	(649)	(594)	(181)
Income tax effect of goodwill amortization, nondeductible expenditures and other items, net	469	441	107
Other	993	(257)	318
	\$ (5,683)	(4,123)	(753)

</TABLE>

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GENERAL COMMUNICATION, INC.

Notes to Consolidated Financial Statements

<TABLE>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1999 and 1998 are presented below (amounts in thousands):

<CAPTION>

	December 31,	
	1999	1998
<S>	<C>	<C>
Net current deferred tax assets:		
Accounts receivable, principally due to allowance for doubtful accounts	\$ 715	354
Compensated absences, accrued for financial reporting purposes	1,154	804
Workers compensation and self insurance health reserves, principally due to accrual for financial reporting purposes	327	244
Other	776	545
Total current deferred tax assets	\$ 2,972	1,947
Net long-term deferred tax assets:		
Net operating loss carryforwards	\$ 35,486	20,871
Alternative minimum tax credits	2,502	2,081
Deferred compensation expense for financial reporting purposes in excess of amounts recognized for tax purposes	973	1,027
Employee stock option compensation expense for financial reporting purposes in excess of amounts recognized for tax purposes	47	327
Sweepstakes award in excess of amounts recognized for tax purposes	197	201
Other	555	99
Total long-term deferred tax assets	39,760	24,606
Net long-term deferred tax liabilities:		
Plant and equipment, principally due to differences in depreciation	62,007	56,244
Amortizable assets	6,889	4,784
Costs recognized for tax purposes in excess of amounts recognized for book purposes	1,319	1,319
Other	406	534
Total gross long-term deferred tax liabilities	70,621	62,881

&lt;/TABLE&gt;

In conjunction with the 1996 Cable Companies acquisition, the Company incurred a net deferred income tax liability of \$24.4 million and acquired net operating losses totaling \$57.6 million. The Company determined that approximately \$20 million of the acquired net operating losses would not be utilized for income tax purposes, and elected with its December 31, 1996 income tax returns to forego utilization of such acquired losses under Internal Revenue Code section 1.1502-32(b)(4). Deferred tax assets were not recorded associated with the foregone losses and, accordingly, no valuation allowance was provided. At December 31, 1999, the Company has (1) tax net operating loss carryforwards of approximately \$88.0 million that will begin expiring in 2008 if not utilized, and (2) alternative minimum tax credit carryforwards of approximately \$2.5 million available to offset regular income taxes payable in future years. The Company's utilization of remaining acquired net operating loss carryforwards is subject to annual limitations pursuant to Internal Revenue Code section 382 which could reduce or defer the utilization of these losses.

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GENERAL COMMUNICATION, INC.

Notes to Consolidated Financial Statements

Tax benefits associated with recorded deferred tax assets are considered to be more likely than not realizable through taxable income earned in carryback years, future reversals of existing taxable temporary differences, and future taxable income exclusive of reversing temporary differences and carryforwards. The amount of deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

## (7) Redeemable Preferred Stock

The Company issued 20,000 shares of convertible redeemable accreting preferred stock ("Preferred Stock") on April 30, 1999. Proceeds totaling \$20 million (before payment of expenses of \$88,000) were used for general corporate purposes, to repay outstanding indebtedness, and to provide additional liquidity. The Company's amended Senior Holdings Loan facilities limit use of such proceeds (see note 5(b)). The Preferred Stock contains a \$1,000 per share liquidation preference, plus accrued but unpaid dividends and fees. Prior to the four-year anniversary following closing, dividends are payable semi-annually at the rate of 8.5%, plus accrued but unpaid dividends, at the Company's option, in cash or in additional fully-paid shares of Preferred Stock. Dividends earned after the four-year anniversary of closing are payable semi-annually at the rate of 17%, plus accrued but unpaid dividends, in cash only. Dividends totaling \$1,158,000, or \$57.90 per share, were accrued for the year ended December 31, 1999. Mandatory redemption is required 12 years from the date of closing.

The Company may redeem the Preferred Stock after the four-year anniversary of its issuance, and must redeem the Preferred Stock upon the occurrence of a triggering event (as defined). The holders may convert the Preferred Stock into Class A common stock of the Company at any time at a price of \$5.55 per share. At any time subsequent to the third anniversary following closing, and assuming the stock is trading at no less than two times the conversion price, the Company may require immediate conversion. The Preferred Stock, subject to lender approval, is exchangeable in whole or in part, at the Company's option, into subordinated debt with terms and conditions comparable to those governing the Preferred Stock. The Preferred Stock is senior to all other classes of the Company's equity securities, and has voting rights equal to that number of shares of common stock into which it can be converted.

Holders of the Preferred Stock shares will have the right to vote on all matters presented for vote to the holders of common stock on an as-converted basis. Additionally, as long as the Preferred Stock shares remain outstanding and unconverted, the Preferred Stock holders will have the right to vote, as a class, and the Company must obtain the written consent of holders of a majority (or higher as required by Alaska law) of that stock to take certain actions, some of which require shareholder approval necessitating amendment of the Company's Articles of Incorporation.

Following issuance of the Preferred Stock shares, the Company's Board of Directors ("Board") expanded its size from nine to ten seats. The new Board member was elected at the June 24, 1999 Board meeting. The agreement also provides that the rights of the holders of Preferred Stock shares relating to the Board seat or observer (as defined in the Preferred Stock agreement) are to remain effective so long as any of the

Preferred Stock shares remain outstanding.

(8) Stockholders' Equity

Common Stock

GCI's Class A common stock and Class B common stock are identical in all respects, except that each share of Class A common stock has one vote per share and each share of Class B common stock has ten votes per share. In addition, each share of Class B common stock outstanding is convertible, at the option of the holder, into one share of Class A common stock.

MCI WorldCom owns a total of 8,251,509 shares of GCI's Class A and 1,275,791 shares of GCI's Class B common stock that represent approximately 18 and 32 percent of the issued and outstanding shares of the respective class at December 31, 1999 and 1998, respectively.

GENERAL COMMUNICATION, INC.

Notes to Consolidated Financial Statements

After the transaction described in note 2, the owners of the cable television properties acquired in 1996 owned a total of 14,723,077 shares of GCI's Class A common stock representing approximately 40 percent of the issued and outstanding Class A common shares at December 31, 1996. The holders of the GCI subordinated notes exercised a conversion option in January 1997. As a result the noteholders received 1,538,457 shares of GCI's Class A common stock, some of which were sold to others in 1999.

GCI issued 7,000,000 shares of its Class A common stock on August 1, 1997 for \$7.25 per share, before deducting underwriting discounts and commissions. Net proceeds to GCI totaled \$47,959,000. Other costs associated with the stock issuance totaled \$1,233,000.

Stock Option Plan

In December 1986, GCI adopted a Stock Option Plan (the "Option Plan") in order to provide a special incentive to the Company's officers, non-employee directors, and employees by offering them an opportunity to acquire an equity interest in GCI. The Option Plan, as amended in 1999, provides for the grant of options for a maximum of 7,200,000 shares of GCI Class A common stock, subject to adjustment upon the occurrence of stock dividends, stock splits, mergers, consolidations or certain other changes in corporate structure or capitalization. If an option expires or terminates, the shares subject to the option will be available for further grants of options under the Option Plan. The Option Committee of GCI's Board of Directors administers the Option Plan.

The Option Plan provides that all options granted under the Option Plan must expire not later than ten years after the date of grant. If at the time an option is granted the exercise price is less than the market value of the underlying common stock, the "in the money" amount at the time of grant is expensed ratably over the vesting period of the option. Options granted pursuant to the Option Plan are only exercisable if at the time of exercise the option holder is an employee or non-employee director of GCI.

<TABLE> Information for the years 1997, 1998 and 1999 with respect to the Option Plan follows:

<CAPTION>

of		Shares	Weighted Average Exercise Price	Range Exercise
Prices				
-----		-----	-----	-----
	<S>	<C>	<C>	<C>
\$6.50	Outstanding at December 31, 1996	2,453,217	\$3.54	\$0.75-
	Granted	1,047,000	\$6.36	\$0.01-
\$7.63	Exercised	(57,285)	\$3.37	\$0.75-
\$4.00	Forfeited	(72,032)	\$4.82	\$0.75-
\$6.50		-----		
\$7.63	Outstanding at December 31, 1997	3,370,900	\$4.39	\$0.01-
	Granted	1,145,034	\$6.40	\$3.25-
\$7.25	Exercised	(264,600)	\$2.98	\$1.00-

\$4.00	Forfeited	(181,000)	\$6.49	\$4.00-
\$7.00				
	Outstanding at December 31, 1998	4,070,334	\$4.95	\$0.01-
\$7.63				
\$6.00	Granted	865,796	\$4.57	\$3.25-
\$6.00	Exercised	(416,365)	\$3.83	\$0.01-
\$6.00	Forfeited	(165,050)	\$6.03	\$0.01-
\$7.63				
	Outstanding at December 31, 1999	4,354,715	\$4.94	\$0.01-
\$7.63				
	Available for grant at December 31, 1999	1,462,496		

</TABLE>

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GENERAL COMMUNICATION, INC.

Notes to Consolidated Financial Statements

Stock Options Not Pursuant to a Plan

In June 1989, an officer was granted options to acquire 100,000 Class A common shares at \$.75 per share. The options vested in equal annual increments over a five-year period, expiring in February 1999. Options to acquire 50,000 shares were exercised during 1998, and options to acquire the remaining 50,000 shares were exercised in 1999 prior to their expiration.

The Company entered into an incentive agreement in June 1989 with an officer providing for the acquisition of 85,190 remaining shares of Class A common stock of the Company for \$.001 per share exercisable through June 1997. The shares under the incentive agreement vested in equal annual increments over a three-year period and were exercised in June 1997.

Stock Warrants Not Pursuant to a Plan

The Company entered into a warrant agreement in December 1998 with Prime II Management, L.P. ("PMLP"). In lieu of cash payments for services under the amended Management Agreement, PMLP agreed to accept a stock warrant which provides for the purchase of 425,000 shares of GCI class A common stock, with immediate vesting at the option date and an exercise price of \$3.25 per share. The warrant expires December 2003.

The Company entered into a warrant agreement in exchange for services in December 1998 with certain of its legal counsel which provides for the purchase of 16,667 shares of GCI class A common stock, vesting in December 1999, with an exercise price of \$3.00 per share, and expiring December 2003.

The Company entered into a warrant agreement in exchange for services in June 1999 with certain of its legal counsel which provides for the purchase of 25,000 shares of GCI class A common stock, vesting over three years ending December 2001, with an exercise price of \$3.00 per share, and expiring December 2003.

SFAS 123 Disclosures

The Company's stock options and warrants expire at various dates through October 2009. At December 31, 1999, 1998 and 1997, the weighted-average remaining contractual lives of options outstanding were 6.14, 6.54 and 6.65 years, respectively.

At December 31, 1999, 1998 and 1997, the number of exercisable shares under option was 2,509,756, 2,252,130, and 1,759,015, respectively, and the weighted-average exercise price of those options was \$3.91, \$3.45 and \$3.01, respectively.

The per share weighted-average fair value of stock options granted during 1999 was \$4.14 per share for compensatory and \$2.85 for non-compensatory options; for 1998 was \$4.08 per share for compensatory and non-compensatory options; and for 1997, \$6.71 per share for compensatory options and \$6.50 per share for non-compensatory options. The amounts were determined as of the options' grant dates using a qualified Black-Scholes option-pricing model with the following weighted-average assumptions: 1999 - risk-free interest rate of 6.66%, volatility of 0.6455 and an expected life of 5.7 years; 1998 - risk-free interest rate of 4.75%, volatility of 0.6951 and an expected life of 5.7 years; and 1997 - risk-free interest rate of 5.46%, volatility of 1.8558 and an expected life of 5.5 years.

GENERAL COMMUNICATION, INC.  
Notes to Consolidated Financial Statements

&lt;TABLE&gt;

Summary information about the Company's stock options and warrants outstanding at December 31, 1999:

&lt;CAPTION&gt;

Exercisable Average Price	Options and Warrants Outstanding			Options and Warrants		
	Range of Exercise Prices	Number outstanding as of 12/31/99	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable as of 12/31/99	Weighted Exercise
<S>	<C>	<C>	<C>	<C>	<C>	<C>
\$0.01 - \$1.75	335,860	3.46	\$1.31	293,335	\$1.49	
\$3.00 - \$3.00	803,667	2.56	\$3.00	787,000	\$3.00	
\$3.25 - \$3.25	696,505	6.13	\$3.25	467,805	\$3.25	
\$3.75 - \$3.75	4,000	6.09	\$3.75	4,000	\$3.75	
\$4.00 - \$4.00	527,100	4.96	\$4.00	321,100	\$4.00	
\$4.50 - \$5.00	364,950	9.11	\$4.97	22,000	\$4.55	
\$6.00 - \$6.00	592,500	8.15	\$6.00	177,000	\$6.00	
\$6.50 - \$6.94	470,800	7.77	\$6.57	135,150	\$6.54	
\$7.00 - \$7.00	646,000	7.26	\$7.00	220,366	\$7.00	
\$7.25 - \$7.63	380,000	7.77	\$7.39	82,000	\$7.53	
\$0.01 - \$7.63	4,821,382	6.14	\$4.78	2,509,756	\$3.91	

&lt;/TABLE&gt;

&lt;TABLE&gt;

Had compensation cost for the Company's 1997, 1998 and 1999 grants for stock-based compensation plans been determined consistent with SFAS 123, the Company's net income (loss) and net income (loss) per common share would approximate the pro forma amounts below (in thousands except per share data):

&lt;CAPTION&gt;

	As Reported	Pro Forma
<S>	<C>	<C>
1997:		
Net loss	\$ (2,183)	(3,387)
Basic net earnings per common share	\$ (0.05)	(0.08)
Diluted net earnings per common share	\$ (0.05)	(0.08)
1998:		
Net loss	\$ (6,797)	(8,697)
Basic net loss per common share	\$ (0.14)	(0.18)
Diluted net loss per common share	\$ (0.14)	(0.18)
1999:		
Net loss	\$ (9,527)	(11,714)
Basic net loss per common share	\$ (0.21)	(0.26)
Diluted net loss per common share	\$ (0.21)	(0.26)

&lt;/TABLE&gt;

Pro forma net income (loss) reflects options granted in 1999, 1998 and 1997. Therefore, the full impact of calculating compensation cost for stock options under SFAS 123 is not reflected in the pro forma net income amounts presented above since compensation cost is reflected over the options' vesting period of generally 5 years and compensation cost for options granted prior to January 1, 1995 is not considered.

#### Class A Common Shares Held in Treasury

The Company acquired 105,000 shares of its Class A common stock in 1989 for approximately \$328,000 to fund a deferred bonus agreement with an officer of the Company. The agreement provides that the balance is payable after the later of termination of employment or six months after

the effective date of the agreement. In 1995, 1996 and 1997, the Company acquired a total of 98,000 additional shares of Class A common stock for

approximately \$711,000 to fund additional deferred compensation agreements for two of its officers. In 1998 the Company acquired a total of 145,000 additional shares of Class A common stock for approximately \$568,000 to fund additional deferred compensation agreements for three of its officers.

#### Employee Stock Purchase Plan

In December 1986, the Company adopted an Employee Stock Purchase Plan (the "Plan") qualified under Section 401 of the Internal Revenue Code of 1986 (the "Code"). The Plan provides for acquisition of GCI's Class A and Class B common stock at market value. The Plan permits each employee of the Company who has completed one year of service to elect to participate in the Plan. Eligible employees may elect to reduce their compensation in any even dollar amount up to 10 percent of such compensation up to a maximum of \$10,000 in 1999; they may contribute up to 10 percent of their compensation with after-tax dollars, or they may elect a combination of salary reductions and after-tax contributions.

The Company may match employee salary reductions and after tax contributions in any amount, elected by GCI's Board each year, but not more than 10 percent of any one employee's compensation will be matched in any year. The combination of salary reductions, after tax contributions and matching contributions cannot exceed 25 percent of any employee's compensation (determined after salary reduction) for any year. Matching contributions vest over six years. Employee contributions may be invested in GCI common stock, MCI WorldCom common stock, AT&T common stock, TCI Satellite Entertainment, Inc. common stock or various mutual funds. Tele-Communications, Inc. ("TCI") common stock was previously offered to employees as an investment choice but TCI's merger with AT&T in March 1999 resulted in the conversion of TCI shares of common stock into AT&T shares of common stock. TCI Satellite Entertainment, Inc. was not included in the TCI and AT&T merger, therefore its stock was not converted. Alternative investment choices may be offered by the Plan commencing as early as the third quarter of 2000.

Employee contributions invested in GCI common stock receive up to 100% matching, as determined by GCI's Board each year, in GCI common stock. Employee contributions invested in other than GCI common stock receive up to 50% matching, as determined by the GCI's Board each year, in GCI common stock. The Company's matching contributions allocated to participant accounts totaled approximately \$2,448,000, \$2,278,000 and \$1,800,000 for the years ended December 31, 1999, 1998, and 1997, respectively. The Plan may, at its discretion, purchase shares of GCI common stock from GCI at market value or may purchase GCI's common stock on the open market. In 1998 and 1999 the Company funded employer-matching contributions through the issuance of new shares of GCI common stock rather than market purchases and expects to continue to do so in 2000.

#### (9) Fiber Optic Cable System

In early February 1999 the Company completed construction of its fiber optic cable system with commercial services commencing at that time. The cities of Anchorage, Juneau and Seattle are connected via a subsea route. Subsea and terrestrial connections extended the fiber optic cable to Fairbanks via Whittier and Valdez. The total system cost was approximately \$125 million, portions of which were allocated to Cost of Sales and to Other Assets in 1999 (see note 13) in connection with the sale of fiber capacity.

#### (10) Industry Segments Data

The Company has adopted SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information."

The Company's reportable segments are business units that offer different products. The reportable segments are each managed separately because they manage and offer distinct products with different production and delivery processes.

The Company has four reportable segments as follows:

Long-distance services. A full range of common-carrier long-distance services is offered to commercial, government, other telecommunications companies and residential customers, through its networks of fiber optic cables, digital microwave, and fixed and transportable satellite earth stations.

Cable services. The Company provides cable television services to residential, commercial and government users in the State of Alaska. The Company's cable systems serve 26 communities and areas in Alaska, including the state's three largest urban areas, Anchorage, Fairbanks

and Juneau. Cable plant upgrades in 1999 and 1998 enabled the Company to offer digital cable television services in Anchorage and retail cable modem service (through its Internet services segment) in Anchorage, Fairbanks and Juneau, complementing its existing service offerings. The Company plans to expand its product offerings as plant upgrades are completed in other communities in Alaska.

Local access services. The Company introduced facilities based competitive local exchange services in Anchorage in 1997. The Company plans to provide similar competitive local exchange services in Alaska's other major population centers.

Internet services. The Company began offering wholesale and retail Internet services in 1998. Deployment of the new undersea fiber optic cable (see note 9) allowed the Company to offer enhanced services with high-bandwidth requirements.

Services provided by the Company that are included in the "Other" segment in the tables that follow are managed services, product sales, cellular telephone services, and the results of insignificant business units described above which do not meet the quantitative thresholds for determining reportable segments. None of these business units have ever met the quantitative thresholds for determining reportable segments. Also included in the Other segment is a \$19.5 million sale of undersea fiber optic cable system capacity in 1999, and corporate related expenses including marketing, customer service, management information systems, accounting, legal and regulatory, human resources and other general and administrative expenses.

The Company evaluates performance and allocates resources based on (1) earnings or loss from operations before depreciation, amortization, net interest expense and income taxes, and (2) operating income or loss. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies included in note 1. Intersegment sales are recorded at cost plus an agreed upon intercompany profit.

All revenues are earned through sales of services and products within the United States of America ("USA"). All of the Company's long-lived assets are located within the USA.

<TABLE>

Summarized financial information concerning the Company's reportable segments follows (amounts in thousands):

<CAPTION>

	Long-Distance Services	Cable Services	Local Access Services	Internet Services	Other
Total					
<S>	<C>	<C>	<C>	<C>	<C>
<C>					
	1999				
	-----				
Revenues:					
Intersegment	\$ 8,518	1,942	3,937	207	---
14,604					
External	159,722	61,146	15,543	9,120	33,648
279,179					
-----					
Total revenues	168,240	63,088	19,480	9,327	33,648
293,783					
-----					
Cost of sales and services:					
Intersegment	3,430	---	1,255	9,369	---
14,054					
External	80,970	15,478	7,892	3,151	14,976
122,467					
-----					
Total cost of sales and services	84,400	15,478	9,147	12,520	14,976
136,521					
-----					

</TABLE>

<TABLE>

<CAPTION>



	Distance Services	Cable Services	Access Services	Internet Services	Other
Total					
<S>	<C>	<C>	<C>	<C>	<C>
Contribution:					
Intersegment	5,088	1,942	2,682	(9,162)	---
External	78,752	45,668	7,651	5,969	18,672
Total contribution	83,840	47,610	10,333	(3,193)	18,672
Selling, general and administrative expenses	22,789	15,092	9,269	4,531	46,601
Earnings (loss) from operations before depreciation, amortization, net interest expense, income taxes and cumulative effect of a change in accounting principle	61,051	32,518	1,064	(7,724)	(27,929)
Depreciation and amortization	16,270	17,626	3,281	1,128	4,375
Operating income (loss)	\$ 44,781	14,892	(2,217)	(8,852)	(32,304)
Total assets	\$219,806	310,421	28,364	20,311	64,249
Capital expenditures	\$ 17,626	7,186	3,207	5,991	2,563
1998					
Revenues:					
Intersegment	\$ 2,716	1,330	1,284	---	---
External	157,350	57,640	9,908	6,082	15,815
Total revenues	160,066	58,970	11,192	6,082	15,815
Cost of sales and services:					
Intersegment	1,284	---	1,254	2,727	---
External	79,323	13,407	6,113	3,402	13,828
Total cost of sales and services	80,607	13,407	7,367	6,129	13,828
Contribution:					
Intersegment	1,432	1,330	30	(2,727)	---
External	78,027	44,233	3,795	2,680	1,987
Total contribution	79,459	45,563	3,825	(47)	1,987
Selling, general and administrative expenses	21,019	15,630	8,477	782	43,925

40,954	Earnings (loss) from operations before depreciation, amortization, net interest expense and income taxes	58,440	29,933	(4,652)	(829)	(41,938)
32,045	Depreciation and amortization	6,976	17,281	2,597	501	4,690
-----						
8,909	Operating income (loss)	\$ 51,464	12,652	(7,249)	(1,330)	(46,628)
=====						
649,445	Total assets	\$231,727	320,305	31,062	16,535	49,816
=====						
148,973	Capital expenditures	\$110,177	20,727	8,104	3,836	6,129
=====						

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<TABLE>  
<CAPTION>

Total		Long- Distance Services	Cable Services	Local Access Services	Internet Services	Other
-----						
<S>		<C>	<C>	<C>	<C>	<C>
<C>	1997					
	----					
	Revenues:					
688	Intersegment	\$ ---	516	---	---	172
223,809	External	154,681	55,165	610	182	13,171
-----						
224,497	Total revenues	154,681	55,681	610	182	13,343
-----						
	Cost of sales and services:					
472	Intersegment	---	---	472	---	---
111,077	External	86,346	12,610	739	241	11,141
-----						
111,549	Total cost of sales and services	86,346	12,610	1,211	241	11,141
-----						
	Contribution:					
216	Intersegment	---	516	(472)	---	172
112,732	External	68,335	42,555	(129)	(59)	2,030
-----						
112,948	Total contribution	68,335	43,071	(601)	(59)	2,202
-----						
73,583	Selling, general and administrative expenses	18,724	18,812	2,802	26	33,219
-----						
39,365	Earnings (loss) from operations before depreciation, amortization, net interest expense, income taxes and extraordinary item	49,611	24,259	(3,403)	(85)	(31,017)
23,767	Depreciation and amortization	6,676	13,320	525	3	3,243

15,598	Operating income (loss)	\$ 42,935	10,939	(3,928)	(88)	(34,260)
545,302	Total assets	\$161,968	311,643	20,357	8,510	42,824
64,644	Capital expenditures	\$ 23,107	18,199	9,379	7,496	6,463

</TABLE>

Long-distance services, local access service and Internet services are billed utilizing a unified accounts receivable system and are not reported separately by business segment. All such accounts receivable are included above in the long-distance services segment for all periods presented.

<TABLE>

A reconciliation of total segment revenues to consolidated revenues follows:

<CAPTION>

Years ended December 31,		1999	1998
224,497	Total segment revenues	\$ 293,783	252,125
(688)	Less intersegment revenues eliminated in consolidation	(14,604)	(5,330)
223,809	Consolidated revenues	\$ 279,179	246,795

</TABLE>

<TABLE>

A reconciliation of total segment earnings from operations before depreciation, amortization, net interest expense, income taxes and cumulative effect of a change in accounting principle to consolidated net loss before income taxes and cumulative effect of a change in accounting principle follows:

<CAPTION>

Years ended December 31,		1999	1998
39,365	Total segment earnings from operations before depreciation, amortization, net interest expense, income taxes, extraordinary item and cumulative effect of a change in accounting principle	\$ 58,980	40,954
(216)	Less intersegment contribution eliminated in consolidation	(550)	(65)
39,149	Consolidated earnings from operations before depreciation, amortization, net interest expense, income taxes, extraordinary item and cumulative effect of a change in accounting principle	58,430	40,889
23,767	Depreciation and amortization	42,680	32,045
15,382	Consolidated operating income	15,750	8,844
(17,617)	Interest expense, net	(30,616)	(19,764)

	Consolidated net loss before income taxes, extraordinary item and cumulative effect of a change in accounting principle	\$	(14,866)	(10,920)
(2,235)				

A reconciliation of total segment operating income to consolidated net loss before income taxes and extraordinary item follows:

	Years ended December 31,		1999	1998
1997				
	Total segment operating income	\$	16,300	8,909
15,598				
	Less intersegment contribution eliminated in consolidation		(550)	(65)
(216)				
	Consolidated operating income		15,750	8,844
15,382				
	Interest expense, net		(30,616)	(19,764)
(17,617)				
	Consolidated net loss before income taxes, extraordinary item and cumulative effect of a change in accounting principle	\$	(14,866)	(10,920)
(2,235)				

The Company provides message telephone service to MCI WorldCom (see note 12) and Sprint, major customers. The Company earned revenues, net of discounts, included in the long-distance segment, pursuant to a contract with Sprint totaling approximately \$19,770,000, \$25,244,000 and \$22,956,000 for the years ended December 31, 1999, 1998 and 1997 respectively. As a percentage of total revenues, Sprint revenues totaled 7.1%, 10.2% and 10.3% for the years ended December 31, 1999, 1998 and 1997 respectively.

(11) Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 1999 and 1998. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties.

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	(Amounts in thousands)	1999		1998	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Short-term assets	\$ 68,864	68,864	56,367	56,367
	Notes receivable	\$ 2,067	2,067	1,432	1,432
	Short-term liabilities	\$ 35,194	35,194	40,190	40,190
	Long-term debt and capital lease obligations	\$340,500	356,214	351,533	380,153

The following methods and assumptions were used to estimate fair values:

Short-term assets: The fair values of cash and cash equivalents, net receivables, notes receivable and refundable deposit approximate their carrying values due to the short-term nature of these financial instruments.

Notes receivable: The carrying value of notes receivable is estimated to approximate fair values. Although there are no quoted market prices available for these instruments, the fair value estimates were based on the change in interest rates and risk related interest rate spreads since the notes origination dates.

Short-term liabilities: The fair values of current maturities of

long-term debt and capital lease obligations, accounts payable, accrued interest, and subscriber deposits approximate their carrying value due to the short-term nature of these financial instruments.

Long-term debt and capital lease obligations: The fair value of long-term debt is based primarily on discounting the future cash flows of each instrument at rates currently offered to the Company for similar debt instruments of comparable maturities by the Company's bankers.

(12) Related Party Transactions

Pursuant to the terms of a contract with MCI WorldCom, a major shareholder of GCI (see note 8), the Company earned revenues, net of discounts, of approximately \$40,450,000, \$35,991,000 and \$33,962,000 for the years ended December 31, 1999, 1998 and 1997, respectively. As a percentage of total revenues, MCI WorldCom revenues totaled 14.5%, 14.6% and 15.2% for the years ended December 31, 1999, 1998 and 1997 respectively. Amounts receivable, net of accounts payable, from MCI WorldCom totaled \$9,111,000 and \$4,836,000 at December 31, 1999 and 1998, respectively. The Company paid MCI WorldCom for distribution of its traffic in the lower 49 states amounts totaling approximately \$10,623,000, \$12,639,000 and \$14,319,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

The Company entered into a long-term capital lease agreement in 1991 with the wife of the Company's president for property occupied by the Company. The Company guarantees the lease. The lease term is 15 years with monthly payments increasing in \$800 increments at each two-year anniversary of the lease. Monthly lease costs will increase to \$18,400 effective October 2001. If the owner sells the premises prior to the end of the tenth year of the lease, the owner will rebate to the Company one-half of the net sales price received in excess of \$900,000. If the property is not sold prior to the tenth year of the lease, the owner will pay the Company the greater of one-half of the appreciated value of the property over \$900,000, or \$500,000. The leased asset was capitalized in 1991 at the owner's cost of \$900,000 and the related obligation was recorded in the accompanying financial statements.

GCI Cable, Inc. ("GCI Cable") is a party to a Management Agreement with PMLP. Certain of the Prime sellers are affiliated with PMLP. The Management Agreement began on November 1, 1996 and expires on October 31, 2005, however, it can be terminated earlier upon loss of a license to operate the systems, sale of the systems, breach of contract, or upon exercise of an option to terminate the Management Agreement by PMLP or GCI Cable any time after October 31, 2000. The agreement was amended December 15, 1998.

Under the terms of the amended Management Agreement, PMLP performs certain services for GCI Cable and will be compensated as follows:

November 01, 1996 through October 31, 1997	\$1,000,000
November 01, 1997 through December 31, 1997	\$ 125,000
January 01, 1998 through January 31, 1999	Warrant to purchase 425,000 shares of GCI stock
February 01, 1999 through October 31, 1999	\$ 200,000
November 01, 1999 through October 31, 2000 (plus reimbursement for certain expenses)	\$ 400,000

In connection with the agreement, GCI Cable received services valued at approximately \$334,000, \$752,000 and \$1,040,000 including reimbursable expenses for the periods ended December 31, 1999, 1998 and 1997, respectively.

(13) Commitments and Contingencies

Leases

The Company as Lessee. The Company leases business offices, has entered into site lease agreements and uses certain equipment and satellite transponder capacity pursuant to operating lease arrangements. Rental costs under such arrangements amounted to approximately \$13,678,000, \$11,609,000 and \$11,574,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

<TABLE>

A summary of future minimum lease payments for all leases as of December 31, 1999 follows:

<CAPTION>

Year ending December 31:	Operating	Capital
	-----	-----
	(Amounts in thousands)	

<S>	<C>	<C>
2000	\$ 7,498	732
2001	4,051	114
2002	2,608	478
2003	2,454	373
2004	1,277	230
2005 and thereafter	6,607	413
	-----	-----
Total minimum lease payments	\$ 24,495	2,340
	=====	
Less amount representing interest		(666)
Less current maturities of obligations under capital leases		(574)
		-----
Subtotal - long-term obligations under capital leases		1,100
Less long-term obligations under capital leases due to related party, excluding current maturities		(353)
		-----
Long-term obligations under capital leases, excluding related party, excluding current maturities	\$	747
		=====

</TABLE>

The leases generally provide that the Company pay the taxes, insurance and maintenance expenses related to the leased assets. It is expected that in the normal course of business, except for satellite transponder capacity, leases that expire will be renewed or replaced by leases on other properties.

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GENERAL COMMUNICATION, INC.  
Notes to Consolidated Financial Statements

The Company as Lessor. In 1999 the Company signed agreements with a large commercial customer for the lease of three DS3 circuits on Alaska United facilities within Alaska, and between Alaska and the lower 48 states. The lease agreements are for three years with renewal options. A summary of minimum future operating lease rentals follows:

Year ending December 31,	
2000	\$ 4,733
2001	4,733
2002	919
	-----
Total minimum lease rentals	\$ 10,385
	=====

Future Fiber Capacity Sale

An agreement was executed effective July 1999 for a second \$19.5 million sale of fiber capacity to Alaska Communications Systems. The agreement requires Alaska Communications Systems to acquire \$19.5 million of additional capacity during the 18-month period following the effective date of the contract. Costs associated with the capacity to be sold have been classified as Other Assets in the accompanying consolidated financial statements at December 31, 1999.

Deferred Compensation Plan

During 1995, the Company adopted a non-qualified, unfunded deferred compensation plan to provide a means by which certain employees may elect to defer receipt of designated percentages or amounts of their compensation and to provide a means for certain other deferrals of compensation. The Company may, at its discretion, contribute matching deferrals equal to the rate of matching selected by the Company. Participants immediately vest in all elective deferrals and all income and gain attributable thereto. Matching contributions and all income and gain attributable thereto vest over a six-year period. Participants may elect to be paid in either a single lump sum payment or annual installments over a period not to exceed 10 years. Vested balances are payable upon termination of employment, unforeseen emergencies, death and total disability. Participants are general creditors of the Company with respect to deferred compensation plan benefits. Compensation deferred pursuant to the plan totaled approximately \$60,000, \$117,000 and \$58,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

Satellite Transponders

The Company entered into a purchase and lease-purchase option agreement in August 1995 for the acquisition of satellite transponders to meet its long-term satellite capacity requirements. The satellite was successfully launched in January 2000 and delivered to the Company on March 5, 2000. The Company intends to finance the satellite transponders pursuant to a long-term capital lease agreement with a leasing company. The Company will continue to lease transponder capacity on the PanAmSat Galaxy IX satellite until its communications traffic is successfully transitioned to the new satellite transponders.

## Self-Insurance

The Company is self-insured for losses and liabilities related primarily to health and welfare claims up to predetermined amounts above which third party insurance applies. A reserve of \$600,000 and \$545,000 was recorded at December 31, 1999 and 1998, respectively, to cover estimated reported losses, estimated unreported losses based on past experience modified for current trends, and estimated expenses for investigating and settling claims. Actual losses will vary from the recorded reserve. While management uses what it believes is pertinent information and factors in determining the amount of reserves, future additions to the reserves may be necessary due to changes in the information and factors used.

## Litigation and Disputes

The Company is involved in various lawsuits, billing disputes, legal proceedings and regulatory matters that have arisen in the normal course of business. While the ultimate results of these items cannot be predicted with certainty, management does not expect at this time the resolution of them to have a material adverse effect on the Company's financial position, results of operations or its liquidity.

## Cable Service Rate Reregulation

Effective March 31, 1999, the rates for cable programming services (service tiers above basic service) are no longer regulated. This regulation ended pursuant to provisions of the Telecommunications Act of 1996 and the regulations adopted pursuant thereto by the FCC. Federal law still permits regulation of basic service rates. However, Alaska law provides that cable television service is exempt from regulation by the RCA unless 25% of a system's subscribers request such regulation by filing a petition with the RCA. At December 31, 1999, only the Juneau system is subject to RCA regulation of its basic service rates. No petition requesting regulation has been filed for any other system. (The Juneau system serves 8.0% of the Company's total basic service subscribers at December 31, 1999.) Juneau's current rates have been approved by the RCA and there are no other pending filings with the RCA, therefore, there is no refund liability for basic service at this time.

## Year 2000

The Company initiated a company-wide program in 1998 to ensure that our date-sensitive information, telephony, cable, Internet and business systems, and certain other equipment would properly recognize the Year 2000 as a result of the century change on January 1, 2000. The program focused on the hardware, software, embedded chips, third-party vendors and suppliers as well as third-party networks that were associated with the identified systems. The Company substantially completed the program during third quarter 1999 and its systems did not experience any significant disruptions as a result of the century change.

Costs related to the Year 2000 issue have been expensed as incurred and are funded through the Company's operating cash flows. In total, the Company has expensed incremental remediation costs totaling \$2.3 million through December 31, 1999, with remaining incremental remediation costs in 2000 estimated at approximately \$400,000.

The Company did not defer any critical information technology projects because of its Year 2000 program efforts, which were addressed primarily through a dedicated team within the Company's information technology group.

## Universal Service Fund Appeal

During the year ended December 31, 1999 the Company recorded revenues and accounts receivable totaling approximately \$1 million from the Universal Service Fund ("USF") for Internet services provided to certain rural public school districts in Alaska. The USF refused payment of the submitted billings, and the Company has appealed that decision. Management believes the Company's position is sustainable, however no assurance can be given with respect to the ultimate outcome of such appeal. If the appeal results in disallowance of the disputed billings, such loss could have an impact on the Company's financial position, results of operations and cash flows in the year the decision is rendered.

for the years ended December 31, 1999 and 1998 (amounts in thousands, except per share amounts):

<CAPTION>

	First Quarter -----	Second Quarter -----	Third Quarter -----	Fourth Quarter -----	Total Year -----
<S> 1999 ----	<C>	<C>	<C>	<C>	<C>
Total revenues	\$ 61,338	83,659	67,340	66,842	279,179
Net earnings (loss)	\$ (4,865)	2,491	(3,537)	(3,616)	(9,527)
Basic earnings (loss) per common share:					
Net earnings (loss) before cumulative effect of a change in accounting principle (1)	\$ (0.09)	0.04	(0.08)	(0.08)	
(0.20) Cumulative effect of a change in accounting principle	\$ (0.01)	---	---	---	
(0.01)					
-----					
Net earnings (loss) (1)	\$ (0.10)	0.04	(0.08)	(0.08)	(0.21)
=====					
Diluted earnings (loss) per common share:					
Net earnings (loss) before cumulative effect of a change in accounting principle (1)	\$ (0.09)	0.04	(0.08)	(0.08)	
(0.20) Cumulative effect of a change in accounting principle	\$ (0.01)	---	---	---	
(0.01)					
-----					
Net earnings (loss) (1)	\$ (0.10)	0.04	(0.08)	(0.08)	(0.21)
=====					
1998 ----					
Total revenues	\$ 58,152	62,941	62,766	62,936	246,795
Net loss	\$ (1,616)	(2,066)	(2,076)	(1,039)	(6,797)
Basic net loss per common share (1)	\$ (0.03)	(0.04)	(0.04)	(0.02)	(0.14)
Diluted net loss per common share (1)	\$ (0.03)	(0.04)	(0.04)	(0.02)	(0.14)

<FN>

1 Due to rounding, the sum of quarterly loss per common share amounts may not agree to year-to-date loss per common share amounts.

</FN>

</TABLE>

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PART IV

Item 14. EXHIBITS, CONSOLIDATED FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

<TABLE>

<CAPTION>

No.	Page
--	-----
<S>	<C>
(a) (1) Consolidated Financial Statements	
Included in Part II of this Report:	
Independent Auditor's Report.....	69
Consolidated Balance Sheets, December 31, 1999 and 1998.....	70 -- 71
Consolidated Statements of Operations, Years ended December 31, 1999, 1998 and 1997.....	72
Consolidated Statements of Stockholders' Equity, Years ended December 31, 1999, 1998 and 1997.....	73
Consolidated Statements of Cash Flows, Years ended December 31, 1999, 1998 and 1997.....	74
Notes to Consolidated Financial Statements.....	75 -- 100

(a) (2) Consolidated Financial Statement Schedules



Included in Part IV of this Report:

Independent Auditors' Report.....107

Schedule VIII - Valuation and Qualifying Accounts,  
Years ended December 31, 1999, 1998 and 1997.....108

</TABLE>

Other schedules are omitted, as they are not required or are not applicable, or the required information is shown in the applicable financial statements or notes thereto.

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(b) Exhibits

<TABLE>

Listed below are the exhibits that are filed as a part of this Report (according to the number assigned to them in Item 601 of Regulation S-K):

<CAPTION>

Exhibit No.	Description
<S>	<C>
3.1	Restated Articles of Incorporation of The Company dated August 16, 1993. (23)
3.2	Amended and Restated Bylaws of The Company dated January 28, 2000 *
4.1	1997 Amendment No. 1 to Voting Agreement dated October 31, 1996, among Prime II Management L.P., as agent for the Voting Prime Sellers, MCI Telecommunications Corporation, Ronald A. Duncan, Robert M. Walp and TCI GCI, Inc. (23)
10.1	Employee stock option agreements issued to individuals Spradling, Strid, Behnke, and Lewkowski (3)
10.3	Westin Building Lease (5)
10.4	Duncan and Hughes Deferred Bonus Agreements (6)
10.5	Compensation Agreement between General Communication, Inc. and William C. Behnke dated January 1, 1997 (19)
10.6	Order approving Application for a Certificate of Public Convenience and Necessity to operate as a Telecommunications (Intrastate Interexchange Carrier) Public Utility within Alaska (3)
10.7	1986 Stock Option Plan, as amended (21)
10.8	Loan agreement between National Bank of Alaska and GCI Leasing Co., Inc. dated December 31, 1992 (4)
10.13	MCI Carrier Agreement between MCI Telecommunications Corporation and General Communication, Inc. dated January 1, 1993 (8)
10.14	Contract for Alaska Access Services Agreement between MCI Telecommunications Corporation and General Communication, Inc. dated January 1, 1993 (8)
10.15	Promissory Note Agreement between General Communication, Inc. and Ronald A. Duncan, dated August 13, 1993 (9)
10.16	Deferred Compensation Agreement between General Communication, Inc. and Ronald A. Duncan, dated August 13, 1993 (9)
10.17	Pledge Agreement between General Communication, Inc. and Ronald A. Duncan, dated August 13, 1993 (9)
10.19	Summary Plan Description pertaining to the Revised Qualified Employee Stock Purchase Plan of General Communication, Inc. (10)
10.20	The GCI Special Non-Qualified Deferred Compensation Plan (11)
10.21	Transponder Purchase Agreement for Galaxy X between Hughes Communications Galaxy, Inc. and GCI Communication Corp. (11)
10.23	Management Agreement, between Prime II Management, L.P., and GCI Cable, Inc., dated October 31, 1996 (12)
10.25	Licenses: (5)
10.25.1	214 Authorization
10.25.2	International Resale Authorization
10.25.3	Digital Electronic Message Service Authorization
10.25.4	Fairbanks Earth Station License
10.25.5	Fairbanks (Esro) Construction Permit for P-T-P Microwave Service
10.25.6	Fairbanks (Polaris) Construction Permit for P-T-P Microwave Service
10.25.7	Anchorage Earth Station Construction Permit
10.25.8	License for Eagle River P-T-P Microwave Service
10.25.9	License for Juneau Earth Station
10.25.10	Issaquah Earth Station Construction Permit
10.26	ATU Interconnection Agreement between GCI Communication Corp. and Municipality of Anchorage, executed January 15, 1997 (18)
10.29	Asset Purchase Agreement, dated April 15, 1996, among General Communication, Inc., ACNFI, ACNJI and ACNKSI (12)

</TABLE>

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<TABLE>

<CAPTION>

Exhibit No.	Description
<S>	<C>
10.30	Asset Purchase Agreement, dated May 10, 1996, among General Communication, Inc., and Alaska Cablevision, Inc. (12)
10.31	Asset Purchase Agreement, dated May 10, 1996, among General Communication, Inc., and McCaw/Rock Homer Cable System, J.V. (12)

10.32	Asset Purchase Agreement, dated May 10, 1996, between General Communication, Inc., and McCaw/Rock Seward Cable System, J.V. (12)
10.33	Amendment No. 1 to Securities Purchase and Sale Agreement, dated October 31, 1996, among General Communication, Inc., and the Prime Sellers Agent (13)
10.34	First Amendment to Asset Purchase Agreement, dated October 30, 1996, among General Communication, Inc., ACNFI, ACNJI and ACNKSI (13)
10.36	Order Approving Arbitrated Interconnection Agreement as Resolved and Modified by Order U-96-89(8) dated January 14, 1997 (18)
10.37	Amendment to the MCI Carrier Agreement executed April 20, 1994 (18)
10.38	Amendment No. 1 to MCI Carrier Agreement executed July 26, 1994 (16)
10.39	MCI Carrier Addendum--MCI 800 DAL Service effective February 1, 1994 (16)
10.40	Third Amendment to MCI Carrier Agreement dated as of October 1, 1994 (16)
10.41	Fourth Amendment to MCI Carrier Agreement dated as of September 25, 1995 (16)
10.42	Fifth Amendment to the MCI Carrier Agreement executed April 19, 1996 (18)
10.43	Sixth Amendment to MCI Carrier Agreement dated as of March 1, 1996 (16)
10.44	Seventh Amendment to MCI Carrier Agreement dated November 27, 1996 (20)
10.45	First Amendment to Contract for Alaska Access Services between General Communication, Inc. and MCI Telecommunications Corporation dated April 1, 1996 (20)
10.46	Service Mark License Agreement between MCI Communications Corporation and General Communication, Inc. dated April 13, 1994 (19)
10.47	Radio Station Authorization (Personal Communications Service License), Issue Date June 23, 1995 (19)
10.48	Framework Agreement between National Bank of Alaska (NBA) and General Communication, Inc. dated October 31, 1995 (17)
10.49	1997 Call-Off Contract between National Bank of Alaska (NBA) and General Communication, Inc. (GCI) dated November 1, 1996 (20)
10.50	Contract No. 92MR067A Telecommunications Services between BP Exploration (Alaska), Inc. and GCI Network Systems dated April 1, 1992 (20)
10.51	Amendment No. 03 to BP Exploration (Alaska) Inc. Contract No. 92MR067A effective August 1, 1996 (20)
10.52	Lease Agreement dated September 30, 1991 between RDB Company and General Communication, Inc. (3)
10.53	Certificate of Public Convenience and Necessity No. 436 for Telecommunications Service (Relay Services) (19)
10.54	Order Approving Transfer Upon Closing, Subject to Conditions, and Requiring Filings dated September 23, 1996 (19)
10.55	Order Granting Extension of Time and Clarifying Order dated October 21, 1996 (19)
10.56	Contract for Alaska Access Services among General Communication, Inc. and GCI Communication Corp., and Sprint Communications Company L.P. dated June 1, 1993 (20)
10.57	First Amendment to Contract for Alaska Access Services between General Communication, Inc. and Sprint Communications Company L.P. dated as of August 7, 1996 (20)
10.58	Employment and Deferred Compensation Agreement between General Communication, Inc. and John M. Lowber dated July 1992 (19)
10.59	Deferred Compensation Agreement between GCI Communication Corp. and Dana L. Tindall dated August 15, 1994 (19)
10.60	Transponder Lease Agreement between General Communication Incorporated and Hughes Communications Satellite Services, Inc., executed August 8, 1989 (9)
10.61	Addendum to Galaxy X Transponder Purchase Agreement between GCI Communi-

</TABLE>

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<TABLE>  
<CAPTION>

Exhibit No.	Description
-----	
<S>	<C>
	cation Corp. and Hughes Communications Galaxy, Inc. dated August 24, 1995 (19)
10.62	Order Approving Application, Subject to Conditions; Requiring Filing; and Approving Proposed Tariff on an Inception Basis, dated February 4, 1997 (19)
10.63	Resale Solutions Switched Services Agreement between Sprint Communications Company L.P. and GCI Communications, Inc. dated May 31, 1996 (20)
10.64	Commitment Letter from Credit Lyonnais New York Branch, NationsBank of Texas, N.A. and TD Securities (USA) Inc. for Fiber Facility dated as of July 3, 1997 (19)
10.65	Commitment Letter from NationsBank for Credit Facility dated July 2, 1997 (19)
10.66	Supply Contract Between Submarine Systems International Ltd. And GCI Communication Corp. dated as of July 11, 1997. (23)
10.67	Supply Contract Between Tyco Submarine Systems Ltd. And Alaska United Fiber System Partnership Contract Variation No. 1 dated as of December 1, 1997. (23)
10.68	\$200,000,000 Amended and Restated Credit Agreement between GCI Holdings, Inc. and NationsBank of Texas, N.A., as administrative agent, Credit Lyonnais New York Branch, as documentation agent, and TD Securities (USA), Inc. as syndication agent, dated as of November 14, 1997. (23)
10.69	\$50,000,000 Amended and Restated Credit Agreement between GCI Holdings, Inc. and NationsBank of Texas, N.A., as administrative agent, Credit Lyonnais New York Branch, as documentation agent, and TD Securities (USA), Inc. as syndication agent, dated as of November 14, 1997. (23)
10.70	Credit and Security Agreement Dated as of January 27, 1998 among Alaska United Fiber System Partnership as Borrower and The Lenders Referred to Herein and Credit Lyonnais New York Branch as Administrative Agent and NationsBank of Texas, N.A. as Syndication Agent and TD Securities (USA), Inc. as Documentation Agent. (24)
10.71	Third Amendment to Contract for Alaska Access Services between General Communication, Inc. and MCI Telecommunications Corporation dated February 27, 1998 (25)

10.72 Consent and First Amendment to Credit Agreements dated November 14, 1997 (26)  
 10.73 Second Amendment to \$200,000,000 Amended and Restated Credit Agreement (26)  
 10.74 Second Amendment to \$50,000,000 Amended and Restated Credit Agreement (26)  
 10.75 Third Amendment to \$200,000,000 Amended and Restated Credit Agreement (26)  
 10.76 Third Amendment to \$50,000,000 Amended and Restated Credit Agreement (26)  
 10.77 General Communication, Inc. Preferred Stock Purchase Agreement (26)  
 10.78 Qualified Employee Stock Purchase Plan of General Communication, Inc., as amended and

restated

January 01, 2000 \*  
 10.79 Statement of Stock Designation (Series B) (26)  
 10.80 Fourth Amendment to Contract for Alaska Access Services between General Communication, Inc. and its wholly owned subsidiary GCI Communication Corp., and MCI WorldCom. (27)  
 10.81 Fifth Amendment to Contract for Alaska Access Services between General Communication, Inc. and its wholly owned subsidiary GCI Communication Corp., and Sprint Communications Company L.P. (27)  
 21.1 Subsidiaries of the Registrant (23)  
 23.1 Consent of KPMG LLP (Accountant for Company) \*  
 27.1 Financial Data Schedule \*  
 99 Additional Exhibits:  
 99.1 The Articles of Incorporation of GCI Communication Corp. (2)  
 99.2 The Bylaws of GCI Communication Corp. (2)  
 99.3 The Articles of Incorporation of GCI Communication Services, Inc. (4)  
 99.4 The Bylaws of GCI Communication Services, Inc. (4)  
 99.5 The Articles of Incorporation of GCI Leasing Co., Inc. (4)

</TABLE>

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<TABLE>

<CAPTION>

Exhibit No.	Description
<S>	<C>
99.6	The Bylaws of GCI Leasing Co., Inc. (4)
99.7	The Bylaws of GCI Cable, Inc. (14)
99.8	The Articles of Incorporation of GCI Cable, Inc. (14)
99.9	The Bylaws of GCI Cable / Fairbanks, Inc. (14)
99.10	The Articles of Incorporation of GCI Cable / Fairbanks, Inc. (14)
99.11	The Bylaws of GCI Cable / Juneau, Inc. (14)
99.12	The Articles of Incorporation of GCI Cable / Juneau, Inc. (14)
99.13	The Bylaws of GCI Cable Holdings, Inc. (14)
99.14	The Articles of Incorporation of GCI Cable Holdings, Inc. (14)
99.15	The Bylaws of GCI Holdings, Inc. (19)
99.16	The Articles of Incorporation of GCI Holdings, Inc. (19)
99.17	The Articles of Incorporation of GCI, Inc. (18)
99.18	The Bylaws of GCI, Inc. (18)
99.19	The Bylaws of GCI Transport, Inc. (23)
99.20	The Articles of Incorporation of GCI Transport, Inc. (23)
99.21	The Bylaws of Fiber Hold Co., Inc. (23)
99.22	The Articles of Incorporation of Fiber Hold Co., Inc. (23)
99.23	The Bylaws of GCI Fiber Co., Inc. (23)
99.24	The Articles of Incorporation of GCI Fiber Co., Inc. (23)
99.25	The Bylaws of GCI Satellite Co., Inc. (23)
99.26	The Articles of Incorporation of GCI Satellite Co., Inc. (23)
99.27	The Partnership Agreement of Alaska United Fiber System (23)

<FN>

- \* Filed herewith.
- 2 Incorporated by reference to The Company's Annual Report on Form 10-K for the year ended December 31, 1990
  - 3 Incorporated by reference to The Company's Annual Report on Form 10-K for the year ended December 31, 1991
  - 4 Incorporated by reference to The Company's Annual Report on Form 10-K for the year ended December 31, 1992
  - 5 Incorporated by reference to The Company's Registration Statement on Form 10 (File No. 0-15279), mailed to the Securities and Exchange Commission on December 30, 1986
  - 6 Incorporated by reference to The Company's Annual Report on Form 10-K for the year ended December 31, 1989.
  - 8 Incorporated by reference to The Company's Current Report on Form 8-K dated June 4, 1993.
  - 9 Incorporated by reference to The Company's Annual Report on Form 10-K for the year ended December 31, 1993.
  - 10 Incorporated by reference to The Company's Annual Report on Form 10-K for the year ended December 31, 1994.
  - 11 Incorporated by reference to The Company's Annual Report on Form 10-K for the year ended December 31, 1995.
  - 12 Incorporated by reference to The Company's Form S-4 Registration Statement dated October 4, 1996.
  - 13 Incorporated by reference to The Company's Current Report on Form 8-K dated November 13, 1996.
  - 14 Incorporated by reference to The Company's Annual Report on Form 10-K for the year ended December 31, 1996.

- 16 Incorporated by reference to The Company's Current Report on Form 8-K dated March 14, 1996, filed March 28, 1996.
- 17 Incorporated by reference to The Company's Amendment to Annual Report dated December 31, 1995 on Form 10-K/A as amended on August 6, 1996.
- 18 Incorporated by reference to The Company's Form S-3 Registration Statement (File No. 333-28001) dated May 29, 1997.
- 19 Incorporated by reference to The Company's Amendment No. 1 to Form S-3/A Registration Statement (File No. 333-28001) dated July 8, 1997.
- 20 Incorporated by reference to The Company's Amendment No. 2 to Form S-3/A Registration Statement (File No. 333-28001) dated July 21, 1997.
- 21 Incorporated by reference to The Company's Amendment No. 3 to Form S-3/A Registration Statement (File No. 333-28001) dated July 22, 1997.
- 23 Incorporated by reference to The Company's Annual Report on Form 10-K for the year ended December 31, 1997.
- 24 Incorporated by reference to The Company's Quarterly Report on Form 10-Q for the period ended June 30, 1998.
- 25 Incorporated by reference to The Company's Annual Report on Form 10-K for the year ended December 31, 1998.
- 26 Incorporated by reference to The Company's Quarterly Report on Form 10-Q for the period ended March 31, 1999.
- 27 Incorporated by reference to The Company's Quarterly Report on Form 10-Q for the period ended June 30, 1999.

</FN>  
</TABLE>

(c) Reports on Form 8-K

None.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
General Communication, Inc.:

Under date of March 10, 2000, we reported on the consolidated balance sheets of General Communication, Inc. and Subsidiaries ("Company") as of December 31, 1999 and 1998 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1999, which are included in the Company's 1999 Annual Report on Form 10-K. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule in the consolidated financial statements, which is listed in the index in Item 14(a)(2) of the Company's 1999 Annual Report on Form 10-K. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this consolidated financial statement schedule based on our audits.

In our opinion this consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects the information set forth therein.

/s/

KPMG LLP

Anchorage, Alaska  
March 10, 2000

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<TABLE>

Schedule VIII

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES

Valuation and Qualifying Accounts

Years ended December 31, 1999, 1998 and 1997

<CAPTION>

	Additions -----	Deductions -----
Balance at	Charged to	Write-offs

at year	Description	beginning of year	profit and loss	Other	net of recoveries	Balance end of
(Amounts in thousands)						
<S>		<C>	<C>	<C>	<C>	<C>
	Allowance for doubtful receivables, year ended:					
	December 31, 1999: 2,833	\$ 887	4,224	---	2,278	
	December 31, 1998: 887	\$ 1,070	2,795	---	2,978	
	December 31, 1997: 1,070	\$ 597	3,025	---	2,552	

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GENERAL COMMUNICATION, INC.

By: /s/ Ronald A. Duncan  
Ronald A. Duncan, President  
(Chief Executive Officer)

Date: March 24, 2000

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
<S>	<C>	<C>
/s/ Carter F. Page Carter F. Page	Chairman of Board and Director	March 24, 2000
/s/ Robert M. Walp Robert M. Walp	Vice Chairman of Board and Director	March 24, 2000
/s/ Ronald A. Duncan Ronald A. Duncan	President and Director (Principal Executive Officer)	March 24, 2000
/s/ Ronald R. Beaumont Ronald R. Beaumont	Director	March 24, 2000
/s/ Donne F. Fisher Donne F. Fisher	Director	March 24, 2000
William P. Glasgow	Director	
/s/ Stephen R. Mooney Stephen R. Mooney	Director	March 24, 2000
	Director	

Larry E. Romrell

Director

-----  
James M. Schneider

/s/ Christopher J. Shipman

Director

-----  
March 24, 2000

-----  
Christopher J. Shipman

/s/ John M. Lowber

Senior Vice President, Chief Financial  
Officer, Secretary and Treasurer  
(Principal Financial Officer)

-----  
March 24, 2000

-----  
John M. Lowber

/s/ Alfred J. Walker

Vice President, Chief Accounting  
Officer  
(Principal Accounting Officer)

-----  
March 24, 2000

-----  
Alfred J. Walker

</TABLE>

BYLAWS OF  
GENERAL COMMUNICATION, INC.(1)

ARTICLE I  
OFFICES

The Corporation shall maintain a principal office of the Corporation in the State of Alaska as required by law. The Corporation may also have offices in such other places, either within or without the State of Alaska, as the Board of Directors of the Corporation ("Board") may from time to time designate or as the business of the Corporation may require.

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1 As last amended and restated on January 28, 2000

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ARTICLE II  
SEAL

The seal of the Corporation shall be in such form as may be required by law and as shall be approved by the Board. Until changed by the Board, the seal of the Corporation shall be in the form impressed immediately following this Article II. The seal may be used by causing it, or a facsimile thereof, to be impressed or affixed or reproduced or otherwise.

[ S E A L ]

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ARTICLE III

STOCKHOLDER MEETINGS

Section 1. Place of Meetings. Meetings of the stockholders of the Corporation ("Stockholders") shall be held at such place either within or without the State of Alaska as may from time to time be designated by the Board and stated in the notice of the meeting.

Section 2. Annual Meeting of Stockholders. (a) The annual meeting of the Stockholders ("Annual Meeting") shall be held on the first Thursday of June of each year at a time to be designated by the Board or at such other time and date as shall be designated by the Board and stated in the notice of meeting. The purpose of the meeting shall be the election of directors and the transaction of such other business as properly may be brought before the meeting.

(b) If the election of directors shall not be held on the day designated in (a) of this Section 2 for any Annual Meeting, or at any adjournment of such meeting, the Board shall call a special meeting of the Stockholders as soon as conveniently possible thereafter. At such meeting, the election of directors shall take place, and such election and any other business transacted thereat shall have the same force and effect as at an Annual Meeting duly called and held.

Section 3. Special Stockholders' Meetings. Special meetings of the Stockholders may be called at any time by the President, the Chairman of the Board of Directors, the Board of Directors, or the holders of not less than one-tenth of all the shares entitled to vote at such meeting. Such request shall state the purpose of the proposed meeting. For such meetings, notices shall be given in the same manner as notices of the Annual Meeting, except they shall be signed by the persons calling the meeting. No special Stockholders' meetings shall consider any business except that which is designated in general terms in the notice of the meeting.

Section 4. Notices of Meetings. Written or printed notice stating the place, day and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, will be signed and delivered not less than 20 nor more than 60 days before the date of the meeting, either personally or by mail, by or at the direction of the President, the

Secretary or the officer or persons calling the meeting, to each Stockholder of record entitled to vote at such meeting. Only Stockholders of record on the record date established by the Board of Directors pursuant to Section 6 of this Article III will be entitled to notice of such meeting. If mailed, such notice will be deemed to be delivered when deposited with postage prepaid in the United States mail addressed to the Stockholder at the address of the

Bylaws of General Communication, Inc.

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Stockholder as appears on the stock transfer books of the Corporation, or, if the Stockholder has filed with the Secretary a written request that the notice be mailed to a different address, the Corporation will mail the notice to that other address. Except where otherwise required by law or these Bylaws, notice need not be given of any adjourned meeting of the Stockholders.

Section 5. Quorum. The holders of a majority of the stock issued and outstanding and entitled to vote, present in person or represented by proxy, will constitute a quorum at all meetings of the Stockholders for the transaction of business except as otherwise provided by applicable law or by the Articles of Incorporation; provided that in no event may a quorum consist of less than one-third of the shares entitled to vote at the meeting. The Stockholders present in person or represented by proxy at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough Stockholders to leave less than a quorum, if any action taken other than adjournment is approved by at least a majority of shares required to constitute a quorum. If, however, such quorum initially is not present or represented at any meeting of the Stockholders, those Stockholders present in person or represented by proxy and entitled to vote will have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present or represented. At such reconvened meeting at which a quorum is present or represented, any business may be transacted which might have been transacted at the original meeting.

Section 6. Voting. (a) At each meeting of the Stockholders, every Stockholder having the right to vote shall be entitled to vote, either in person or by proxy, the number of votes as provided for in or pursuant to the Articles of Incorporation for each share of voting stock registered in that Stockholder's name on the books of the Corporation on the date of the closing of the books against transfers of stock, the record date fixed for the determination of Stockholders entitled to vote at such meeting, or if the books are not so closed or no such date is fixed, the date of such meeting.

(b) When a quorum is present at any meeting, the affirmative vote of a majority of the votes represented by the issued and outstanding shares entitled to vote, present in person or represented by proxy, shall decide any matter brought before such meeting, unless the question is one upon which, by express provision of the laws of the State of Alaska or of the Articles of Incorporation, a different vote is required, in which case such express provision shall govern and control the decision of such question.

(c) Except as may be determined by the Board of Directors of the Corporation with respect to the Preferred Stock and except as otherwise expressly required by the laws of the State of Alaska or the Articles of Incorporation, as then in effect, the holders of the Class A Common Stock of the Corporation and the holders of the Class B Common Stock of the Corporation shall vote with the holders of voting shares of the

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Preferred Stock of the Corporation, if any, as one class for the election of directors and for all other purposes.

Section 7. Record Date. In order to determine the holders of record of the Corporation's stock who are entitled to notice of meetings, to vote at a meeting or adjournment thereof, and to receive payment of any dividend, or to make a determination of the Stockholders of record for any proper purpose, the Board (i) may prescribe a record date which in no event will be more than 70 days nor less than 20 days, prior to the date of the action which requires such determination during which no transfer of stock on the books of the Corporation may be made or (ii) may, in lieu of closing the stock transfer books of the Corporation, fix a record date which in no event will be more than 60 days nor less than 20 days prior to the date of the action which requires such determination as the record date for such determination of Stockholders.

Section 8. Presiding Officer; Order of Business; Conduct of Meeting.

(a) Meetings of the Stockholders shall be presided over by the Chairman of the Board, or if the Chairman is not present, by the President, or if the President is not present, by a Vice President. The Secretary of the Corporation, or, in the Secretary's absence, an Assistant Secretary, shall act as secretary of every meeting. In the absence of the Secretary or Assistant Secretary, the



chairman of the meeting may choose any person present to act as secretary of the meeting.

(b) Subject to the provisions of this Section 8, meetings of Stockholders shall generally follow accepted rules of parliamentary procedure, including but not limited to the following:

(1) Except when overruled by a majority of the votes represented by the votes held by Stockholders present, the chairman of the meeting shall have absolute authority over matters of procedure and authority to state the rules under which the voting shall be conducted.

(2) If disorder shall arise which prevents continuation of the legitimate business of the meeting, the chairman may quit the chair and announce the adjournment of the meeting; and upon taking such action, the meeting shall be automatically adjourned.

(3) The chairman may ask or require that anyone not a bona fide Stockholder or proxy leave the meeting.

(4) Subject to the provisions of Section 14 of this Article III, a resolution or motion may be considered for a vote if proposed by a Stockholder or duly authorized proxy, and seconded by an individual, who

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is a Stockholder or a duly authorized proxy, other than the individual who proposed the resolution or motion.

(c) The following order of business shall be observed at all Annual Meetings insofar as is practicable:

- (1) Call to order;
- (2) Present proof of notice of meeting or waiver of it;
- (3) Appoint inspector of election, if necessary;
- (4) Determine whether a quorum is present;
- (5) Make reports;
- (6) Read, correct and approve minutes of a previous meeting, unless the reading is waived;
- (7) Elect directors;
- (8) Address special business stated in the notice of meeting;
- (9) Address other business;
- (10) Adjourn.

(d) At any special meeting of Stockholders, the business transacted shall be confined to the purpose described in the notice of the meeting and subject to the provisions of Section 14 of this Article III.

Section 9. Proxies. A Stockholder may vote the Stockholder's shares through a proxy or attorney-in-fact appointed by a written instrument signed by the Stockholder and delivered to the secretary of the meeting. No proxy shall be valid after six months from the date of its execution, unless a longer period is expressly provided in the proxy, but in no case may the proxy be valid for a period in excess of 11 months from the date of execution. No proxy shall be valid and voted on after the meeting of the Stockholders, or any adjournment of such meeting, to which it applies. Every proxy shall be revocable at the pleasure of the Stockholders executing it, except in those cases where an irrevocable proxy is duly executed and permitted by law.

Section 10. Voting List. (a) At least 20 days before each meeting of Stockholders, a complete list of the Stockholders entitled to vote at that meeting, arranged in alphabetical order and showing the address of and number and class of

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shares entitled to vote at such meeting owned by each Stockholder, shall be prepared by the Secretary or an officer of the transfer agent, transfer clerk or registrar of the Corporation having charge of the stock transfer books and at the direction of the Secretary. That list of Stockholders will, for a period of

30 days prior to such meeting, be kept on file at the registered office of the Corporation and will be subject to inspection by any Stockholder at any time during normal business hours. Such list will also be produced and kept open at the time and place of the meeting and will be subject to the inspection of any Stockholder during the entire time of the meeting.

(b) The original stock transfer books shall be prima facie evidence as to who are the Stockholders entitled to examine such list or transfer books, or to vote at any meeting of the Stockholders.

(c) Failure to comply with the requirements of this Section 10 shall not affect the validity of any action taken at such meeting of the Stockholders.

Section 11. Action Without a Meeting. Any action, except the election of directors, which may be taken by the vote of Stockholders at a meeting of Stockholders may be taken without a meeting if authorized by the written consents of Stockholders, identical in content setting out the action to be taken, signed by the holders of all outstanding shares entitled to vote on the action.

Section 12. Non-Cumulative Voting. In the election of directors, Stockholders will not cumulate their votes but must vote shares held by them for as many persons as there are directors to be elected.

Section 13. Voting of Shares by Certain Stockholders. (a) Shares of the Corporation standing in the name of another corporation may be voted by such officer, agent or proxy as the bylaws of that corporation may prescribe or, in the absence of such provision, as the board of directors of that corporation may determine.

(b) Shares or the Corporation held by an administrator, executor, guardian or conservator may be voted by that person, either in person or by proxy, without a transfer of such shares into that person's name. Shares standing in the name of a trustee may be voted by that person, either in person or by proxy, but no trustee will be entitled to vote shares held by that person without a transfer of such shares into that person's name.

(c) Shares of the Corporation standing in the name of a receiver or bankruptcy trustee may be voted by that person, and shares held by or under the control of a receiver or bankruptcy trustee may be voted by that person without the transfer thereof into that person's name if authority to do so is contained in an appropriate order of the court by which that person was appointed or otherwise provided or permitted under applicable federal bankruptcy law.

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(d) A Stockholder whose shares are pledged will be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter the pledgee will be entitled to vote the shares so transferred.

(e) Shares of its own stock held by the Corporation in a fiduciary capacity, will not be voted at any meeting or counted in determining the total number of outstanding shares at any given time.

Section 14. Advance Notice of Nominations and Stockholder Proposals.

(a) All nominations of individuals for election to the Board at a meeting of the Stockholders and proposals of business to be considered at a meeting of the Stockholders shall be made as set forth in this Section 14.

(b) The procedures to be followed for an annual meeting of Stockholders are as follows:

(1) Nomination of individuals for election to the Board and proposal of business to be considered by the Stockholders may be made at an annual meeting of Stockholders,

(A) pursuant to the Corporation's notice of meeting;

(B) by or at the direction of the Board; or

(C) by a Stockholder,

(i) who was a Stockholder of record both at the time of giving of notice provided for in (b) of this Section 14 and at the time of the meeting and, in the case of proposals, who had continuously held at least \$2,000 in market value or at least 1% of the Company's securities entitled to be voted on the matter at the meeting for at least one year by the date of submission of the proposal to the Company for inclusion on the agenda of the meeting;

(ii) who is entitled to vote at the meeting; and

(iii) who complied with the notice and other requirements set forth in this Section 14.

(2) For nominations or other business to be brought properly before an annual meeting by a Stockholder under (b)(1)(C) of this Section 14, the

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Stockholder must have given timely notice of it in writing to the Secretary as provided in this Section 14 and, in the case of a proposal of business, that business must be a proper subject for action by the Stockholder.

(3) As used in (b)(2) of this Section 14, to be timely, a Stockholder's notice must be delivered to the Secretary at the principal executive offices of the Corporation and received not less than 120 days nor more than 150 days prior to the first anniversary of the release of the Corporation's proxy statement to Stockholders for the preceding year's annual meeting. However, in the event that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, notice by the Stockholder, to be timely, must be so delivered and received not earlier than the 150th day prior to that annual meeting and not later than the close of business on the later of the 120th day prior to that annual meeting or the 10th day following the day on which public announcement of the date of that meeting is first made.

(4) The Stockholder's notice shall set forth the following:

(A) as to each person whom the Stockholder proposes to nominate for election or reelection as a director,

(i) the name, age, business and residential addresses, and principal occupation or employment of each proposed nominee;

(ii) the class and number of shares of capital stock of the Corporation which are beneficially owned by that nominee on the date of that notice;

(iii) a description of all arrangements or understandings between the Stockholder and each nominee and the name of any other person or persons pursuant to which the nomination or nominations are to be made by the Stockholder;

(iv) all other information relating to that nominee that is required to be disclosed in solicitation of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A adopted pursuant to the Securities Exchange Act of 1934 or any successor provision; and

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(v) the written consent of each proposed nominee to being named as a nominee in the proxy statement and to serve as a director of the Corporation if so elected;

(B) as to any other business that the Stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting that business at the meeting and any material interest in that business of the Stockholder and of the beneficial owner, if any, on whose behalf the proposal is made; and

(C) as to the Stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made,

(i) the name and address of that Stockholder, as they appear on the Corporation's books, and of that beneficial owner, if any;

(ii) the class and number of shares of stock of the

Corporation which are owned beneficially and of record by the Stockholder and that beneficial owner, if any; and

(iii) a representation that the Stockholder intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice or to propose such other business.

(5) The Corporation may require any proposed nominee to furnish any information, in addition to that furnished pursuant to (b)(4)(A) of this Section 14, that the Corporation may reasonably require to determine the eligibility of the proposed nominee to serve as a director of the Corporation.

(6) Notwithstanding the provisions of (b)(3) of this Section 14 to the contrary, in the event that the number of directors to be elected to the Board is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board made by the Corporation at least 130 days prior to the first anniversary of the preceding year's annual meeting, a Stockholder's notice required by (b) of this Section 14 shall also be considered timely, but only with respect to nominees for any new positions created by that increase, if the notice shall be delivered to and received by the Secretary at the principal executive offices of the Corporation not later than the close of business

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on the 10th day following the day on which that public announcement is first made by the Corporation.

(c) The procedures to be followed for a special meeting of Stockholders are as follows:

(1) Only such business shall be conducted and only such proposals shall be acted upon at a special meeting of Stockholders as shall have been brought before that meeting pursuant to the Corporation's notice of meeting.

(2) Nominations of persons for election to the Board may be made at a special meeting of Stockholders at which directors are to be elected,

(A) by or at the direction of the Board; or

(B) provided that the notice of the special meeting states that the purpose, or one of the purposes, of that meeting is to elect directors at the meeting, by any Stockholder who is a stockholder of record both at the time of giving of notice provided for in this Section 14 and at the time of the meeting, who is entitled to vote at the meeting and who complied with the notice and other requirements set forth in this Section 14.

(3) In the event the Corporation calls a special meeting of Stockholders for the purpose of electing one or more directors to the Board, any such Stockholder may nominate a person or persons, as the case may be, for election to that position as specified in the Corporation's notice of meeting, if the notice containing the same information as would be required under (b)(2)-(6) of this Section 14 for an annual meeting is delivered to and received by the Secretary at the principal executive offices of the Corporation not earlier than the 150th day prior to that special meeting and not later than the close of business on the later of the 120th day prior to that special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting or of the nominees proposed by the Board to be elected at that meeting.

(4) Proposals of business other than the nomination of persons for election to the Board may be considered at a special meeting requested by Stockholders in accordance with Section 3 of this Article III only if the Stockholders give a notice containing the same information as would be

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required under (b)(2)-(6) of this Section 14 for an annual meeting

at the time those Stockholders requested the meeting.

(d) The following provisions apply to Stockholder meetings generally:

(1) Only persons who are nominated in accordance with the procedure set forth in this Section 14 shall be eligible to serve as directors, and only such business shall be conducted at a meeting of Stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 14.

(2) The Board may reject any nomination or Stockholder proposal submitted for consideration at any meeting of Stockholders which is not made in accordance with the provisions of this Section 14 or which is not a proper subject for Stockholder action in accordance with provisions of applicable law.

(3) Should the Board fail to consider the validity of a nomination or Stockholder proposal, the presiding officer of the meeting shall have the power and duty,

(A) to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the provisions of this Section 14 and is a proper subject for Stockholder action in accordance with provisions of applicable law; and

(B) if any proposed nomination or business is not in compliance with this Section 14 or is not a proper subject for Stockholder action, to declare that the defective nomination or proposal is disregarded.

(4) The provisions of (d) of this Section 14 shall not prevent the consideration and approval or disapproval at the meeting of reports of officers, directors and committees of the Board. However, in connection with such reports, no new business shall be acted upon at the meeting unless stated, submitted and received in accordance with the provisions of this Section 14.

(5) For purposes of this Section 14,

(A) "public announcement" means disclosure in a press release reported by the Dow Jones News Service, Associated Press,

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Reuters or comparable news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13,14, or 15(d) of the Securities Exchange Act of 1934 or any successor provision; and

(B) in no event shall the public announcement of a postponement or adjournment of a meeting commence a new time period for giving of a Stockholder's notice pursuant to this Section 14.

(6) A Stockholder may submit no more than one proposal to the Corporation for a particular meeting of Stockholders. The proposal, including any accompanying supporting statement, may not exceed 500 words.

(7) The Corporation may exclude a Stockholder proposal for any of the following substantive reasons:

(A) would be improper under state law;

(B) would be a violation of law;

(C) would be a violation of proxy rules;

(D) is a personal grievance or special interest;

(E) is not relevant;

(F) Corporation lacks power or authority to implement;

(G) relates to management functions;

(H) relates to election;

(I) conflicts with the Corporation's proposal;

(J) was substantially implemented;

(K) substantially duplicates another proposal to be addressed at the meeting;

(L) is a resubmission of another proposal; or

(M) relates to a specific amount of dividend.

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(8) Notwithstanding the other provisions of this Section 14, a Stockholder shall also comply with all applicable requirements of state law and the Securities Exchange Act of 1934 and the rules and regulations adopted under that act with respect to the matters set forth in this Section 14. Nothing in this Section 14 shall be deemed to affect any rights of Stockholders to request inclusion of proposals in, or the Corporation's right to omit proposals from, the Corporation's proxy statement pursuant to Rule 14a-8 under that act or any successor provision.

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#### ARTICLE IV

##### BOARD OF DIRECTORS

Section 1. General Authority. The property, business and affairs of the Corporation shall be managed and controlled by its Board, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by applicable law or the Articles of Incorporation or these Bylaws directed or required to be exercised or done by the Stockholders.

Section 2. Number and Term of Office. (a) The governing body of this Corporation shall be the Board. Directors on the Board need not be Stockholders and need not be residents of the State of Alaska. The number of directors shall be not less than three nor more than twelve. Each director shall be of a legal age. The number of members of the Board shall be fixed by the Board from time to time by a vote of at least a simple majority of the whole Board at a regular or special meeting called by written notice, which notice includes notice of the proposal to change the number of directors; provided that no decrease in the number of directors shall have the effect of shortening the term of any incumbent director. Until changed as provided in this Section 2, the number of directors on the Board shall be five.

(b) Upon the establishment of the Board as having three or more members ("Class Date"), the Board will be divided into three classes: Class I, Class II and Class III. Each such class will consist, as nearly as possible, of one-third of the whole number of the Board. Directors in office on the Class Date will be divided among such classes and in such manner, consistent with the provisions of this Article IV, as the Board may determine by resolution. The initial Class I directors so determined shall serve until the next Annual Meeting following such date. The initial Class II directors so determined shall serve until the second Annual Meeting following such date. The initial Class III directors so determined shall serve until the third Annual Meeting following such date. In the case of each such class, such directors shall serve, subject to their earlier death, resignation or removal in accordance with the Articles of Incorporation, these Bylaws and the laws of the State of Alaska, until their respective successors shall be elected and shall qualify. At each Annual Meeting after the date of such filing, the directors chosen to succeed those whose terms shall have expired shall be elected to hold office for a term to expire at the third succeeding Annual Meeting after their election and, subject to their earlier death, resignation or removal in accordance with the Articles of Incorporation, these Bylaws and the laws of the State of Alaska, until their respective successors shall be elected and shall qualify. If the number of directors is changed, any increase or decrease shall be apportioned among such classes so as to maintain all classes as equal in number as possible, and any

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additional director elected to any class shall hold office for a term which shall coincide with the terms of the other directors in such class.

(c) As used in these Bylaws, the terms "whole Board" or "entire Board" shall mean the number of directors the Corporation would have under these Bylaws at the time of determination if there were no vacancies.

Section 3. Elections. (a) Other than as provided in Section 2 of this

Article IV, the directors of the Corporation shall be elected at the Annual Meeting or at a special meeting of Stockholders called for that purpose, by at least a simple majority of the quorum for that meeting.

(b) Any vacancy occurring in the Board caused by death, resignation, removal and any newly created directorship resulting from an increase in the number of directors on the Board, may be filled by the directors then in office, although such directors are less than a quorum, or by the sole remaining director. Each director chosen to fill a vacancy or a newly created directorship shall hold office until the next election of the Class for which such director shall have been chosen or, if no class is established, then until the next election of directors and, subject to that director's earlier death, resignation or removal in accordance with the Articles of Incorporation, these Bylaws and the laws of the State of Alaska, until that director's successor shall be duly elected and shall qualify.

(c) Any director may resign at any time by giving written notice to the Board of Directors, the President, Chairman of the Board, or the Secretary of the Corporation. Any such resignation will take effect upon receipt of such notice or at any later time specified in the notice. Unless otherwise specified in the notice, the acceptance of such resignation will not be necessary to make any postdated resignation by notice in writing to the resigning director. In the event the resignation of a director is tendered to take effect at a future time, a successor may be elected to take office when the resignation becomes effective.

(d) The Stockholders may elect a director to fill any vacancy not filled by the Board.

(e) The term of a director terminates upon the election and qualification of a successor.

Section 4. Removal of Directors. (a) The entire Board or any individual director may be removed from office, at an Annual Meeting or a special meeting of Stockholders called for that purpose, by at least, a majority vote of a quorum of Stockholders for that meeting.

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(b) If, after the filling of a vacancy by the Board, the directors who have been elected by the Stockholders constitute less than a majority of the directors, a holder or holders of an aggregate of 10 percent or more of the shares outstanding at the time may call a special meeting of Stockholders to elect the entire Board.

(c) The Board may declare vacant the office of a director who has been declared of unsound mind by a court order.

(d) The superior court may, at the suit of the Board or of Stockholders holding at least 10 percent of the number of outstanding shares of any class, remove from office a director for fraudulent or dishonest acts, gross neglect of duty, or gross abuse of authority or discretion with reference to the Corporation and may bar from reelection a director removed in that manner for a period prescribed by the court. In this instance, the Corporation will be made a party to the suit.

(e) Except as set forth in (a)-(d) of this Section 4, a director may not be removed from office before the expiration of the term of office of that director.

Section 5. Executive Committee. (a) By the affirmative vote of at least 75 percent of the directors, the Board may designate an Executive Committee, all of whose members shall be directors, to manage and operate the affairs of the Corporation or particular properties or enterprises of the Corporation, except to the extent Stockholder authorization is required by law, the Articles of Incorporation or these Bylaws. The Executive Committee will have the power, as set forth by resolution of the Board or these Bylaws to perform or authorize any act that could be done or accomplished by the majority action of all the directors of the Corporation, except as provided in (b) of this Section 5. The Executive Committee shall keep minutes of its meetings and report to the Board not less often than quarterly on its activities and shall be responsible to the Board for the conduct of the enterprises and affairs entrusted to it.

(b) The following areas of responsibility are expressly reserved to the Board and will not be delegated to any committees of the Board:

(1) Declaring dividends or distributions;

(2) Approving or recommending to Stockholders actions or proposals required by the Alaska Corporations Code to be approved by Stockholders;

(3) Designating candidates for the office of director, for purposes of proxy solicitation or otherwise, or fill vacancies on the board or any committee of the board;

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(4) Amending the Bylaws;

(5) Approving a plan or merger not requiring Stockholder approval;

(6) Capitalizing retained earnings;

(7) Authorizing or approve the reacquisition of shares unless under a general formula or method specified by the board;

(8) Authorizing or approve the issuance or sale of, or a contract to issue or sell, shares or designate the terms of a series of a class of shares, unless the Board, having acted regarding general authorization for the issuance or sale of shares, a contract to issue or sell, or the designation of a series, authorizes a committee, under a general formula or method specified by the Board by resolution or by adoption of a stock option or other plan, to fix the terms of a contract for the sale of the shares and to fix the terms upon which the shares may be issued or sold, including, without limitation, the price, the dividend rate, provisions for redemption, sinking fund, conversion, voting or preferential rights, and provisions for other features of a class of shares, or a series of a class of shares, with full power in the committee to adopt a final resolution setting out all the terms of a series for filing with the commissioner of the Department of Commerce & Economic Development under the Alaska Corporations Code; or

(9) Authorizing, approving, or ratifying contracts or other transactions between the Corporation and one or more of its directors, or between the Corporation and a corporation, firm, or association in which one or more of its directors has a material financial interest as defined under AS 10.06.478 of the Alaska Corporations Code.

(c) The designation of a committee, the delegation to the committee of authority, or action by the committee under that authority does not alone constitute compliance by a member of the Board or that committee with the responsibility to act in good faith, in a manner the member reasonably believes to be in the best interests of the Corporation, and with the care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

Section 6. Other Committees. The Board may, by resolution, establish committees other than an Executive Committee and shall specify with particularity the powers and duties of any such committee. All committees of the Board including the Executive Committee shall serve at the pleasure of the Board, keep minutes of their

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meetings; have such names as the Board, by resolution, may determine; and be responsible to the Board for the conduct of the enterprises and affairs entrusted to them. All such committees will each have at least two or more members, all of whom will serve at the pleasure of the Board.

Section 7. Place of Meetings. The directors may hold their meetings in such place or places as the Board may from time to time by resolution determine.

Section 8. Meetings. Regular or special meetings of the Board or of a committee of the Board will be held at such place as may be designated from time to time by the Board or any other person calling the meeting, and such meetings may be called by the Chairman of the Board, the President, a Vice President, the Secretary, or a director.

Section 9. Quorums. (a) The presence of a majority of the number of directors fixed by the Articles of Incorporation at a meeting of the Board duly assembled will constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which a quorum is present will be the act of the Board, except as may be otherwise specifically provided by the Articles of Incorporation or by these Bylaws. If a quorum initially is not present at any meeting of directors, the directors present at that meeting may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

(b) The presence of a majority of the number of directors at a meeting



of a committee of the Board duly assembled will constitute a quorum for the transaction of business, and the act of majority of the directors present at any meeting at which a quorum is present will be the act of that committee, except as may be otherwise specifically provided by the Articles of Incorporation or these Bylaws. If a quorum initially is not present at any meeting of a committee of the Board, the members present at that meeting may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

Section 10. Action Without a Meeting. Any action that may be taken at a meeting of the Board or a committee of the Board may be taken without a meeting if identical consents in writing describing the action so taken are signed by all of the directors or members of such committee entitled to vote with respect to the subject matter thereof. Each such consent in writing shall be filed with the minutes of the proceedings of the Board.

Section 11. Order of Business. At meetings of the Board, business shall be transacted in such order as the Board may by resolution determine. At all meetings of the Board, the Chairman of the Board, or in that person's absence, the President, or in

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that person's absence the director designated as the chairman of the meeting by the majority of the directors present, shall preside.

Section 12. Director's compensation. Directors shall receive such compensation and reimbursement of any expenses incidental to the performance of their duties as the Board shall determine by resolution. Such compensation may be in addition to any compensation received by the members of the Board in any other capacity.

Section 13. Minutes. The Board shall keep written minutes of its meetings. In the event the Secretary of the Corporation is not a member of the Board, the Board shall prescribe by a resolution the officer or other person who shall be charged with the responsibility of keeping and maintaining such minutes.

Section 14. Notice and Waiver of Notice. (a) The first meeting of each newly elected Board will be held, without notice, immediately following the adjournment of the corresponding Annual Meeting, or as soon thereafter as is practicable.

(b) Regular meetings of the Board or a committee of the Board may be held, without notice, at such time and place, as will from time to time be fixed by the Board or these Bylaws.

(c) Special meetings of the Board or a committee of the Board will be held upon either notice in writing sent 10 days before the meeting or notice by electronic means, personal messenger, or comparable person-to-person communication given at least 72 hours before the meeting. The notice must include disclosure of the business to be transacted and the purpose of the meeting.

(d) Whenever under the provisions of statutes, of the Articles of Incorporation, or of these Bylaws, notice is required to be given to any director or Stockholder, it will be given in writing, by mail or telegram, addressed to such director or Stockholder at such address as appears on the records of the Corporation with postage thereon prepaid, and such notice by mail will be deemed to be given at the time when deposited in the United States mail.

(e) Attendance of a Stockholder, either in person or by proxy, or of a director at a meeting will constitute a waiver or notice of such meeting, except where an appearance is made for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

(f) Whenever any notice is required to be given under the provisions of statutes, the Articles of Incorporation or these Bylaws, a waiver of the notice in writing, signed by the person entitled to the notice either before or after the time stated in the notice will be deemed equivalent to the giving of that notice.

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Section 15. Dividends. Subject always to the provisions of the laws of the State of Alaska and the Articles of Incorporation, the Board shall have full power to determine whether any, and if so what part, of the funds legally available for the payment of dividends shall be declared in dividends and paid to the Stockholders. The Board may fix a sum which may be set aside or reserved over and above the paid-in capital of the Corporation for working capital or as

a reserve for any proper purpose, and from time to time may increase, diminish and vary such funds in the Board's absolute judgment and discretion. Dividends upon the shares of stock of the Corporation, subject always to the mentioned provisions, may be declared by the Board at any regular or special meeting of the Board, payable in cash, property or shares of the Corporation's stock.

Section 16. Meetings Held Other Than in Person. Members of the Board or any committee thereof may participate in a meeting of the Board or such committee, as the case may be, by means of a conference telephone network or similar communications method by which all persons participating in the meeting can hear each other, and such participation shall constitute presence in person at the meeting. Each person participating in any meeting in which any director participates by such means shall sign the minutes thereof, and such minutes may be signed in counterpart.

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#### ARTICLE V

#### OFFICERS

Section 1. Number and Tenure. The Board shall elect from its members a Chairman of the Board and a President. The Board shall also elect a Secretary, a Treasurer and a Registered Agent. The Board may also elect, from time to time, such Vice Presidents and other or additional officers as in its opinion are desirable or required for the conduct of the business of the Corporation. Any of the officers of the Corporation may or may not be directors, except that the Chairman of the Board and the President shall be directors. The officers of the Corporation shall hold office until the first meeting of the Board following the Annual Meeting next following their respective election and, subject to their earlier death, resignation or removal in accordance with the Articles of Incorporation, these Bylaws and the laws of the State of Alaska, until their successors are chosen and qualify.

Section 2. Discretion. In its discretion, the Board, by the vote of a majority of the whole Board, may leave any office, except that of President, Treasurer, Secretary or Registered Agent, unfilled for any such period as it may fix by resolution. Subject to the laws of the State of Alaska, any officer or agent of the corporation may be removed at any time by the affirmative vote of at least 75 percent of the whole Board.

Section 3. Chairman of the Board. The Chairman of the Board shall be a director and, when present, shall preside at all meetings of the Board. The Chairman of the Board shall be a member of all standing committees of the Board and Chairman of the Executive Committee. The Chairman of the Board shall perform such other duties as may be prescribed from time to time by the Board or by these Bylaws. The Chairman of the Board shall have the powers of the President and power to delegate any of the Chairman's powers, on a temporary or permanent basis, to the President.

Section 4. President. The President shall be the chief executive officer of the Corporation. The President shall be a member of the Board. The President shall exercise such duties as customarily pertain to the office of President and shall have general and active supervision over the property, business and affairs of the Corporation and over its several officers. The President may appoint and terminate the appointment or election of officers, agents, or employees other than those appointed or elected by the Board. The President may sign, execute and deliver, in the name of the Corporation, powers of attorney, contracts, bonds and other obligations which implement policies established by the Board, and shall perform such other duties as may be prescribed from time to time by the Board or by these Bylaws.

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Section 5. Vice Presidents. Vice Presidents shall have such distinguishing titles, powers and perform such duties as may be assigned to them by the Chairman of the Board, the President, the Executive Committee or the Board. In the absence or disability of the Chairman of the Board and the President, any Vice President designated by the Board may perform the duties and exercise the powers of the President. A Vice President may sign and execute contracts and other obligations pertaining to the regular course of duties of that office which implement policies established by the Board and shall perform such other duties as may be prescribed from time to time by the Board or these Bylaws.

Section 6. Treasurer. The Treasurer shall be the chief financial officer and, unless the Board otherwise declares by resolution, the chief accounting officer of the Corporation. Unless the Board otherwise declares by resolution, the Treasurer shall have general custody of all the funds and securities of the Corporation and have general supervision of the collection and disbursement of funds of the Corporation. The Treasurer shall endorse for

collection on behalf of the Corporation checks, notes and other obligations, and shall deposit the same to the credit of the Corporation in such bank or banks or depository as the Board may designate. The Treasurer may sign, with the Chairman of the Board, President, or such other person or persons as may be designated for the purpose by the Board, all bills of exchange or promissory notes of the Corporation. The Treasurer shall enter or cause to be entered regularly in the books of the Corporation a full and accurate account of all moneys received and paid by the Treasurer on account of the Corporation; shall at all reasonable times exhibit books and accounts of the Treasurer to any director of the Corporation upon application at the office of the Corporation during business hours; and, whenever required by the Board or the President, shall render a statement of accounts for the Corporation. The Treasurer shall perform such other duties as may be prescribed from time to time by the Board or by the Bylaws. The Treasurer may be required to give bond for the faithful performance of duties of that office in such sum and with such surety as shall be approved by the Board. The Board may authorize one or more accounting firms to perform any act or discharge any responsibility of the Treasurer. Any individual appointed by the Board as Assistant Treasurer shall, in the absence or disability of the Treasurer, perform the duties and exercise the powers of the Treasurer and shall perform such other duties and have such other powers as the Board may from time to time prescribe.

Section 7. Secretary. Subject to Section 8 of Article III and Section 13 of Article IV of these Bylaws, the Secretary shall keep the minutes of all meetings of the Stockholders and of the Board, and to the extent ordered by the Board, the Chairman of the Board or the President, will keep the minutes of meetings of all committees. The Secretary shall cause notice to be given of meetings of Stockholders, of the Board and of any committee appointed by the Board. The Secretary shall have custody of the corporate seal and minutes and records relating to the conduct and acts of the

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Stockholders and the Board, which shall, at all reasonable times, be open to the examination of any director. The Secretary or any Assistant Secretary appointed by the Board may certify the record of proceedings of the meetings of the Stockholders or of the Board and of resolutions adopted at such meetings; may sign or attest certificates, statements or reports required to be filed with governmental bodies or officials; may sign acknowledgments of instruments; may give notices of meetings; and shall perform such other duties and have such other powers as the Board may from time to time prescribe.

Section 8. Registered Agent. The Registered Agent for the Corporation may be an individual or corporation, resident or located in Alaska. The Registered Agent shall have such duties and responsibilities as are prescribed by the laws of the State of Alaska.

Section 9. Bank Accounts. In addition to such bank accounts as may be authorized in the usual manner by resolution of the Board, the Treasurer, with approval of the Chairman of the Board or the President, may authorize such banks accounts to be opened or maintained in the name and on behalf of the Corporation as may be deemed necessary or appropriate by the Treasurer, provided payments from such bank accounts are to be made upon and according to the check of the Corporation, which may be signed jointly or singularly by either manual or facsimile signature or signatures of such officers or bonded employees of the Corporation as shall be specified in the written instructions of the Treasurer or Assistant Treasurer with the approval of the Chairman of the Board or the President.

Section 10. Vacancies. In case any office shall become vacant, the Board shall have power to fill such vacancy. In case of the absence or disability of any officer, the Board may delegate the powers or duties of such officer to another officer in the Corporation, or to a director.

Section 11. Proxies. Unless otherwise directed by the Board, the Chairman of the Board or the President, or the designees of either of these two officers shall have full power and authority on behalf of the Corporation to attend and to vote upon all matters and resolutions at any meeting of Stockholders of any corporation in which this Corporation may hold stock, and may exercise on behalf of this Corporation any and all of the rights and powers incident to the ownership of such stock at any such meeting, whether regular or special, and at all adjournments thereof, and shall have power and authority to execute and deliver proxies and consents on behalf of this Corporation in connection with the exercise by this Corporation of the rights and powers incident to the ownership of such stock, with full power of substitution or revocation.

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Section 12. Dual Offices. Any person may hold more than one corporate

office, except that the President shall not hold any other office except that of Chairman of the Board.

Section 13. Salaries. The salaries of all executive officers of the Corporation shall be fixed by the Board from time to time. No officer shall be ineligible to receive such salary by reason of the fact that that officer is also a director of the Corporation and receiving compensation therefor or that that officer devotes less than full time during normal business hours to the performance of that officer's duties as an officer of the Corporation.

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#### ARTICLE VI

#### INDEMNIFICATION

Section 1. Non-Derivative Actions. The Corporation will indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of or arising from the fact that that person is or was a director, officer, employee, or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise. Amounts paid in settlement actually and reasonably incurred by that person in connection with such action, suit or proceeding may include reimbursement of expenses, attorney fees, judgments, fines, and amounts paid in settlement actually and reasonably incurred by that person in connection with the action or proceedings if that person acted in good faith and in a manner that that person reasonably believed to be in or not opposed to the best interests of the Corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe the conduct was unlawful. The termination of any action, suit and proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, will not of itself create a presumption that the person did not act in good faith and in a manner which that person reasonably believed to be in or not opposed to the best interests of the Corporation and, with respect to any criminal action or proceeding, the person had reasonable cause to believe that the conduct was unlawful.

Section 2. Derivative Actions. The Corporation will indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason for arising from the fact that he is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise. This indemnification will cover reimbursement for expenses (including attorney fees) actually and reasonably incurred by that person in connection with the defense or settlement of such action if that person acted in good faith and in a manner that person reasonably believed to be in or not opposed to the best interests of the Corporation.

Section 3. Reimbursement Conditions. (a) Indemnification will not be made in respect of any claim, issue, or matter as to which the person has been adjudged to be liable for negligence or misconduct in the performance of the person's duty to the Corporation, except to the extent that the court in which the action was brought determines upon application that, despite the adjudication of liability, in view of all the

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circumstances of the case, the person is fairly and reasonably entitled to indemnity for expenses that the court considers proper.

(b) To the extent that a director, officer, employee, or agent of the Corporation has been successful on the merits or otherwise in defense of an action or proceeding as described in Sections 1 and 2 of this Article VI or in defense of a claim, issue, or matter in the action or proceeding, the director, officer, employee, or agent will be indemnified against expenses and attorney fees actually and reasonably incurred in connection with the defense.

(c) Unless otherwise ordered by a court, indemnification under Sections 1 or 2 of this Article VI may only be made by the Corporation upon a determination that indemnification of the director, officer, employee, or agent is proper in the circumstances because the director, officer, employee, or agent has met the applicable standard of conduct set out in those sections. The determination will be made by:

(1) The Board by at least a majority vote of a quorum consisting of directors who were not parties to the action or proceeding; or

(2) Independent legal counsel in a written opinion if a quorum under (c)(1) of this Section 3 is

(A) not obtainable;

(B) obtainable but a majority of disinterested directors so directs; or

(C) Approval of the outstanding shares of the Corporation.

(d) The Corporation may pay or reimburse the reasonable expenses incurred in defending a civil or criminal action or proceeding in advance of the final disposition in the manner provided in (c) of this Section 3 if:

(1) In the case of a director or officer, the director or officer furnishes the Corporation with a written affirmation of a good faith belief that the standard of conduct described in AS 10.06.450(b) or 10.06.483(e) of the Alaska Corporations Code has been met;

(2) The director, officer, employee, or agent furnishes the Corporation a written unlimited general undertaking, executed personally or on behalf of the individual, to repay the advance if it is ultimately determined that an applicable standard of conduct was not met; and

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(3) A determination is made that the facts then known to those making the determination would not preclude indemnification under the Alaska Corporations Code.

(e) The indemnification provided under Sections 1 and 2 of this Article VI is not exclusive of any other rights to which a person seeking indemnification may be entitled under a bylaw, agreement, vote of Stockholders or disinterested directors, or otherwise, both as to action in the official capacity of the person and as to action in another capacity while holding the office. The right to indemnification continues as to a person who has ceased to be a director, officer, employee, or agent, and inures to the benefit of the heirs, executors, and administrators of the person.

Section 4. Insurance. At the discretion of the Board, the Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against that person and incurred by that person in any such capacity, or arising out of that status, whether or not the Corporation would have the power to indemnify that person against such liability under the provisions of this Article VI.

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## ARTICLE VII

### CERTIFICATE OF STOCK

Section 1. Form. (a) The interest of each Stockholder shall be evidenced by certificates for shares of stock, certifying the class and number of shares represented thereby and in such form, not inconsistent with the Articles of Incorporation, as the Board may from time to time prescribe.

(b) The certificates of stock shall be signed by the President or a Vice President and by the Secretary or an Assistant Secretary and sealed with the seal of the Corporation. Such seal may be a facsimile, engraved or printed. Where any certificate is countersigned or otherwise authenticated by a transfer agent or by a transfer clerk, and by a registrar, the signatures of any such officers upon such certificate may be facsimile, engraved or printed. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon any certificates shall have ceased to be such before the certificate is issued, it may be issued by the Corporation with the same effect as if such officer, transfer agent or registrar had not ceased to be such at the time of its issue.

Section 2. Transfers. (a) Transfers of shares of the capital stock of the Corporation shall be made only on the books of the Corporation by the registered owner thereof, or by that owner's duly authorized attorney, and on surrender of the certificate or certificates for such shares properly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, and with all taxes thereon paid.

(b) The person in whose name shares of stock stand on the books of the Corporation shall be deemed by the Corporation to be the owner thereof for all purposes, and the Corporation shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Alaska.

Section 3. Lost or Destroyed Certificates. The Board shall have the power to direct new stock certificates to be issued to any Stockholder in place of any certificates theretofore issued by the Corporation when such Stockholder proves to the satisfaction of the Board that a stock certificate is lost or destroyed, or upon the posting of an indemnity bond by the owner of such lost or destroyed certificates, or that Stockholder's legal representatives, in such amount as the Board shall deem appropriate, to hold the Corporation harmless from any loss or claim arising out of or in connection with the issuance of a duplicate certificate, unless such requirement be dispensed with by the Board, in its discretion, in any instance or instances.

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Section 4. Transfer Agent and Registrar. The Board may appoint one or more transfer agents or transfer clerks and one or more registrars, and may require all certificates for shares to bear the manual or facsimile signature or signatures of any of them. The Corporation's transfer agent and registrar may be the identical if the person or entity acting in such dual capacities countersigns certificates for shares required to bear that person's signatures in both capacities.

Section 5. Restrictions on Transfer. No securities of the Corporation or certificates representing such securities will be transferred in violation of any law or of any restriction on such transfer set forth in the Articles of Incorporation or amendments to them, these Bylaws or other agreement restricting such transfer which has been filed with the Corporation if reference to any such restrictions is made on the certificates representing such securities. The Corporation will not be bound by any restriction not so filed and noted. The Corporation may rely in good faith upon the opinion of its counsel as to any legal or contractual violation with respect to any such restrictions unless the issue has been finally determined by a court of competent jurisdiction. The Corporation and any party to such agreement will have the right to have a restrictive legend imprinted upon any certificate covered by the agreement and any certificates issued in replacement or exchange therefor or with respect to such certificates.

Section 6. Closing Transfer Books and Filing Record Date. The Board may prescribe a period not exceeding 70 days nor less than 20 days prior to the record date appointed for the payment of dividends to Stockholders during which no transfer of stock may be made on the books of the Corporation, or the Board may fix a date not more than 60 days nor less than 20 days prior to the date for the payment of any such dividends as the record date as of which Stockholders entitled to receive payment of such dividends will be determined. Only Stockholders of record on that record date will be entitled to receive payment of such dividends.

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#### ARTICLE VIII

##### REPORTS TO SHAREHOLDERS

Section 1. Annual Report. (a) The Board will authorize the preparation of and arrangement for the distribution of an annual report to Stockholders of the Corporation as required by as 10.06.433(a) Alaska Corporations Code.

(b) The annual report to Stockholders will contain, at minimum, a balance sheet as of the end of the fiscal year and an income statement and statement of changes in financial position for the fiscal year accompanied by (1) a report on the fiscal year by independent accountants or (2) if there is no such report from accountants, a certificate of an authorized officer of the Corporation that the financial statements were prepared without audit from the books and records of the Corporation; provided that, so long as the Corporation's stock is registered pursuant to the federal Securities Exchange Act of 1934, the Annual Report to Stockholders required under that act will be provided to all Stockholders.

Section 2. Other Reports. A Stockholder holding at least five percent of the outstanding shares of a class of the Corporation may make a written request to the Corporation in accordance with AS 10.06.433(c) of the Alaska Corporations Code, for a quarterly income statement of the Corporation and a balance sheet of the Corporation and, in addition, if an annual report for the last fiscal year has not been sent to Stockholders, the statements required by

(a) of Section 1 of Article VIII of these Bylaws for the last fiscal year. These statements will be delivered or mailed by the Corporation to the person making the request within 30 days of the request. A copy of these statements will be kept on file in the principal office of the Corporation for 12 months, and they will be exhibited at all reasonable times to a Stockholder demanding an examination of the statements, or a copy of the statements will be mailed to that Stockholder.

Section 3. Delivery. (a) The Corporation will, in accordance with AS 10.06.433(d) of the Alaska Corporations Code, upon the written request of a Stockholder, mail to the Stockholder a copy of the reports described in this Article VIII.

(b) The income statements and balance sheets referred to in this Article VIII must be accompanied by any report on those statements prepared by independent accountants engaged by the Corporation or the certificate of an authorized officer of the Corporation that the financial statements were prepared without audit from the books and records of the Corporation.

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#### ARTICLE IX

##### TRANSACTIONS WITH OFFICERS, DIRECTORS AND SHAREHOLDERS

Section 1. Director Material Interest. A contract or other transaction between the Corporation and one or more of the directors of the Corporation, or between the Corporation and a corporation, firm, or association in which one or more of the directors of the Corporation has a material financial interest, is neither void nor voidable because the director or directors or other corporation, firm, or association is a party or because the director or directors is present at the meeting of the Board that authorizes, approves, or ratifies the contract or transaction, if the material facts as to the transaction and as to the director's interest are fully disclosed or known to the

(1) Stockholders and the contract or transaction is approved by the Stockholders in good faith, with the shares owned by the interested director or directors not being entitled to vote; or

(2) Board, and the Board authorizes, approves, or ratifies the contract or transaction in good faith by a sufficient vote without counting the vote of the interested director or directors, and the person asserting the validity of the contract or transaction sustains the burden of proving that the contract or transaction was just and reasonable as to the Corporation at the time it was authorized, approved, or ratified.

Section 2. Common Directorships, Votes on Compensation. (a) A common directorship does not alone constitute a material financial interest within the meaning of this Article IX. A director is not interested, within the meaning of this Article IX, in a resolution fixing the compensation of another director as a director, officer, or employee of the Corporation, notwithstanding the fact that the first director is also receiving compensation from the Corporation.

(b) Interested or common directors may be counted in determining the presence of a quorum at a meeting of the Board that authorizes, approves, or ratifies a contract or transaction under this Article IX.

Section 3. Transactions Involving Cross Directorships. A contract or other transaction between the Corporation and a corporation or association of which one or more directors of the Corporation are directors is neither void nor voidable because the director or directors are present at the meeting of the Board that authorizes, approves, or ratifies the contract or transaction, if the material facts of the transaction and the director's other directorship are fully disclosed or known to the Board and the Board authorizes, approves, or ratifies the contract or transaction in good faith by a sufficient

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vote without counting the vote of the common director or directors or the contract or transaction is approved by the Stockholders in good faith. This Section 3 does not apply to contracts or transactions covered by Section 1 of this Article IX.

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#### ARTICLE X

GENERAL PROVISIONS

Section 1. Fiscal Year. The fiscal year of the Corporation shall convene on the first day of January of each year, unless otherwise determined by the Board.

Section 2. Books and Records. A certified copy of the Articles of Incorporation and the Bylaws shall be deposited in the name of the Corporation in such bank or banks, trust company or trust companies or other institutions as the Board shall designate by resolution. All checks or demands for the payment of money and all notes and other instruments of a negotiable nature shall be signed by the person designated by appropriate resolution of the Board or these Bylaws.

Section 3. Contracts. The Board may authorize any officer or officers or agent or agents to enter into any contract or execute and deliver any instrument in the name and on behalf of the Corporation, and such authority may be general or confined to specific instances.

Section 4. Loans. No loans shall be contracted on behalf of the Corporation and no evidence of indebtedness shall be issued in its name unless authorized by a resolution of the Board, and such authorization may be general or confined to specific instances.

Section 5. Saving Clause. In the event any provision of these Bylaws is inconsistent with the Articles of Incorporation or the corporate laws of the State of Alaska, such provision shall be invalid to the extent of such conflict; and such conflict shall not affect the validity of all other provisions of these Bylaws.

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ARTICLE XI

AMENDMENTS

Section 1. Amendment and Repeal. Except as otherwise provided by law, the power to alter, amend or repeal these Bylaws and adopt new Bylaws will be vested exclusively in the Board, provided that such action must be taken by a vote of at least a simple majority of the whole Board.

Section 2. Recordation. Whenever an amendment or new bylaw is adopted and thereby made a part of the Bylaws, a copy of that bylaw will be kept in the minute book with these Bylaws. If any position of the Bylaws is repealed, the fact of such repeal and the date on which it occurred will be recorded in the minute book, and a copy of it will be placed next to and include in these Bylaws.

I, the undersigned being the Secretary of GENERAL COMMUNICATION, INC., hereby certify the foregoing to be the amended and revised Bylaws of the Corporation, as adopted by the Board, on the 28th day of January, 2000.

/s/  
John M. Lowber, Secretary

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QUALIFIED EMPLOYEE STOCK PURCHASE PLAN

OF

GENERAL COMMUNICATION, INC.

(Amended and restated in compliance with SBJPA '96 and TRA '97 and USERRA)

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ARTICLE I

NAME AND PURPOSE OF PLAN AND TRUST

Section 1.1 Name and Purpose. The Company, by execution of this agreement, amends and restates its qualified stock purchase plan, to be known as the General Communication, Inc. Qualified Employee Stock Purchase Plan, to afford its employees a convenient means for regular and systematic purchases of common stock of the Company and to instill a proprietary interest in the Company. The Plan and Trust Fund are created for the exclusive benefit of Employee-Participants and their beneficiaries. The Plan is intended to qualify under Sections 401(a) and 401(k) of the Code, and the trust created under the Plan is intended to be exempt under Section 501(a) of the Code.

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ARTICLE II

DEFINITIONS

Section 2.1 Definitions. When used in this agreement, the following words shall have the following meanings, unless the context clearly indicates otherwise:

- (i) "Account", unless otherwise indicated, means a Participant's entire interest in Company stock and any other assets in the Trust Fund created by his Employer's contributions and his own contributions, and the income, expenses, gains, and losses attributable to such stock and assets.
- (ii) "Anniversary Date" means the first day of each Plan Year.
- (iii) "Associated Company" means any corporation which is deemed to be a member of the group of corporations under common control of the Company and which adopts this Plan and Trust with the consent of the Company. Any such Company which subsequently is no longer a member of the controlled group shall be deemed to have terminated this Plan and Trust immediately upon such failure to be a member of the controlled group.
- (iv) "Beneficiary" means the person who, under this Plan, becomes entitled to receive a Participant's Account upon his death.
- (v) "Board of Directors" means the board of directors of the Company.
- (vi) "Break in Service" for purposes of eligibility to participate means any 12-month period, measured from the Employee's employment or Reemployment Commencement Date in which the Employee has completed no more than 500 hours of service. "One-Year Break in Service" for vesting and all other purposes means any Plan Year in which the Employee has completed no more than 500 hours of service. For purposes of this definition, hours of service shall include service as an Employee in any capacity including Union Employee and commissioned salesman.
- (vii) "Code" means the Internal Revenue Code of 1986, as it presently is constituted, as it may be amended, or any successor statute of similar purposes.
- (viii) "Company" means General Communication, Inc., a corporation with its principal place of business at Anchorage, Alaska, or any successor in interest to it resulting from merger, consolidation, or transfer of substantially all of its assets, which expressly may agree in writing to continue this Plan.
- (ix) "Compensation" means the total amount actually or constructively paid by an Employer to a Participant for services rendered to the Employer during the Plan Year including overtime pay, commissions, and bonuses, but excluding relinquished vacation pay, unused sick pay, insurance premiums, pension and retirement benefits, living expenses, other allowances, and all contributions by the Employer to this Plan, to any other tax qualified Plan or to any health accident or welfare fund or Plan. Compensation shall be calculated to include amounts that are not currently paid to a Participant and not includible in a Participant's gross income by reason of the application of Code Section 125 and 402(g).

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Pursuant to Code Section 401(a)(17), Compensation taken into account for all purposes under this Plan shall not exceed \$150,000, as adjusted by the Secretary of the Treasury for cost of living increases each year, for any Plan Year.

- (x) "Determination Date" means, with respect to any Plan Year, the last day of the preceding Plan Year (or in the case of the first Plan Year, the last day of such Plan Year). This Section 2.1(x) shall be interpreted to conform with Code Section 416.
- (xi) "Effective Date" of this restated Plan means January 1, 1997, unless otherwise provided in this Plan. For any Associated Company which is not participating in this Plan on the restated effective date, effective date means that date designated by the Associated Company.
- (xii) "Employee" means any person, whether male or female, now or hereafter in the employ of an Employer, including officers of the Employer, but excluding directors who are not in the Employer's employ in any other capacity, excluding independent contractors, and excluding Union Employees. Employee shall not include any individual who is treated as an independent contractor by the Employer, as reflected in the records of the Company, even if such individual

becomes classified as a common-law employee of the Company by any administrative agency or court of competent jurisdiction, or by the IRS, or pursuant to an agreement between the Company and the IRS.

- (xiii) "Employer" means the Company and any Associated Company which has adopted the Plan and Trust.
- (xiv) "Employment Commencement Date" means the date on which an Employee first performs an Hour of Service for the Employer.
- (xv) "Fiduciary" means a person who (A) exercises any discretionary authority or discretionary control respecting management of the Plan or exercises any authority or control respecting management or disposition of its assets; (B) renders investment advice for a fee or other Compensation, direct or indirect, with respect to any moneys or other property of the Plan, or has any authority or responsibility to do so; or (C) has any discretionary authority or discretionary responsibility in the administration of the Plan. If any money or other property of the Plan is invested in securities issued by an investment company registered under the Investment Company Act of 1940, such investment by itself shall not cause such investment company or such investment company's investment adviser or principal underwriter to be deemed to be a fiduciary or a party in interest.
- (xvi) "Highly Compensated Employee" means, for the Plan Year beginning in 1997, and subsequent Plan Years, any Employee who:
- (A) was a five percent owner at any time during the Determination Year or the Look-Back Year; or
- (B) for the Look-Back Year, had Compensation in excess of \$80,000 (as adjusted by the Secretary of the Treasury for cost of living increases), and

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(C) was in the top-paid group of Employees for the Look-Back Year. An Employee is in the top-paid group of Employees for any Plan Year if such Employee is in the group consisting of the top twenty percent (20%) of the Employees when ranked on the basis of Compensation paid during the Plan Year.

For purposes of this definition, the Determination Year shall be the Plan Year. The Look-Back Year shall be the twelve-month period immediately preceding the Determination Year.

In determining an individual's Compensation under this section, Compensation from each Company required to be aggregated under Code Sections 414(b), (c), (m), and (o) will be taken into account. For purposes of this section, the determination of Compensation will include deferrals made pursuant to Code Sections 125, 402(e)(3), 402(h)(1)(B) and, in the case of Company contributions made pursuant to a elective deferral agreement, deferrals made pursuant to Code Section 403(b).

A former Employee will be treated as a Highly Compensated Employee if such Employee separated from service (or was deemed to have separated) prior to the Plan Year, performs no service for the Company during the Plan Year, and was a Highly Compensated Employee for either the separation year or any Plan Year ending on or after the Employee's 55th birthday.

The determination of who is a Highly Compensated Employee, including the determinations of the number and identity of Employees in the top-paid group and the Compensation that is considered, will be made in accordance with Code Section 414(q).

- (xvii) (A) "Hour of Service" means (1) each hour for which an Employee is paid or is entitled to payment, for the performance of duties for his Employer during the applicable computation period; (2) each hour for which an Employee is paid or is entitled to payment by his Employer on account of a period of time during which no duties are performed (irrespective of whether the employment relationship is terminated) due to vacation, holiday, illness, incapacity (including disability), layoff, jury duty, military duty, or leave of absence; and (3) each hour for which back pay, irrespective of mitigation of damages, either was awarded or agreed to by the Employer.

(B) For purposes of Section 2.1(xvii)(A)(2) the following rules shall apply: (1) no more than 501 hours will be credited to any

Employee on account of a single continuous period during which the Employee performs no duties; (2) an hour shall not be credited on account of a period during which no duties are performed if the payment for such hour is made or due under a Plan maintained solely for the purpose of complying with applicable workmen's Compensation, or unemployment Compensation or disability insurance laws; (3) hours shall not be credited for payments which reimburse an Employee solely for medical or medically related expenses incurred by the Employee; and (4) a payment shall be deemed to be made by or due from the Employer regardless of whether such payment is made by or due from the Employer directly, or indirectly through, among others, a Trust Fund, or insurer, to which the Employer contributes or pays premiums. These rules also

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shall apply to the extent that any back pay is agreed to or awarded for a period of time during which an Employee did not or would not have performed duties.

(C) For purposes of this Section 2.1(xvii), the same hours of service shall not be credited under both Sections 2.1(xvii)(A)(1) or (2) of this Plan and also under Section 2.1(xvii)(A)(3) of this Plan. Each Hour of Service shall be credited under this Section 2.1(xvii) in accordance with 29 C.F.R. Section 2530.200b-2(b) and (c). Employment with any affiliated companies (whether or not incorporated) that are members of a controlled group as defined in Code Section 414(b), that are under common control as defined in Code Section 414(c), or that are members of an affiliated service group within the meaning of Code Section 414(m) or any other entity required to be aggregated with the Company pursuant to Code Section 414(o) and the final regulations thereunder, will be treated as employment with the Company for purposes of participation and vesting under this Plan; provided, however, that an employee must be employed by the Employer to participate in this Plan. In addition, for all purposes of the Plan, Hours of Service will be credited for any individual considered a Leased Employee under Code Section 414(n) and for any individual considered an Employee under Code Section 414(o) and the final regulations thereunder.

(D) For purposes of determining whether an Employee has experienced a Break in Service, hours of service shall include each hour for which an Employee is absent from work for any period (1) by reason of the pregnancy of the Employee; (2) by reason of the birth of a child of the Employee; (3) by reason of the placement of a child with the Employee in connection with the adoption of such child by such Employee; or (4) for purposes of caring for such child for a period beginning immediately following such birth or placement.

(E) The hours described in the preceding sentence shall be treated as hours of service in the year in which the absence from work begins if the Participant would be prevented from incurring a one-year Break in Service as a result of such treatment or, in any other case, the hours shall be treated as hours of service in the immediately following year. The hours described in the two preceding sentences shall be the hours of service which otherwise would normally have been credited to such Participant but for such absence, or in any case in which the Plan is unable to determine such hours, eight hours of service per work day of such absence. No credit will be given pursuant to this paragraph unless the Participant furnishes to the Plan Committee such timely information as the Plan may require to establish that the absence from work is for reasons described above and to establish the number of days for which there was such an absence.

(F) An Employee will be credited with service for participation and vesting purposes for leaves of absence qualifying under the Family and Medical Leave Act of 1993, but only to the extent required by the Family and Medical Leave Act and the regulations thereunder.

(xviii) (A) "Key Employee" means any Employee of an Employer who, at any time during the Plan Year or any of the four preceding Plan Years, is (1) an officer of an Employer having annual Compensation greater than 50 percent of the dollar limitation under Code Section 415(b)(1)(A), as adjusted for increases in the cost of living for any Plan Year; (2) one of the ten Employees having annual Compensation from an Employer of more than the \$30,000

annual addition limitation as adjusted for increases in the cost of living and owning (or considered to own under Code Section 318) the largest interests of the Employer; (3) a five percent owner of the Employer; or (4) a one percent owner of the Employer having annual Compensation from the Employer of more than \$150,000.

(B) For purposes of Section 2.1(xviii)(A)(1) of this Plan, no more than 50 Employees (or, if lesser, the greater of 3 Employees or 10 percent of the Employees) shall be treated as officers. For purposes of Section 2.1(xviii)(A)(2) of this Plan, if two Employees have the same interest in an Employer, the Employee having greater annual Compensation from the Employer shall be treated as having a larger interest. This Section 2.1(xviii)(B) shall be interpreted to conform with Code Section 416. For purposes of this definition, "Employee" shall have the same meaning as it does under Code Section 416(i)(1). Any Beneficiary of a Key Employee shall be treated as a Key Employee.

- (xix) "Named Fiduciary" means any Fiduciary who is named in this Plan, or who, pursuant to a procedure specified in the Plan, is identified as a Fiduciary to the Plan by the Company. Such Named Fiduciaries include, but are not limited to, the Trustee, the Plan Committee, and the Plan Administrator.
- (xx) "Normal Retirement Age" means the date a Participant attains age 65.
- (xxi) "Participant" means any Employee who has become a Participant under Article III of this Plan. Participation shall cease upon the later of (A) distribution of a Participant's entire vested Account and forfeiture of a Participant's entire nonvested Account or (B) Termination of Employment.
- (xxii) "Plan" and "Plan and Trust" means the Qualified Employee Stock Purchase Plan of General Communication, Inc., and the Trust set forth in and by this Agreement and all subsequent amendments to it.
- (xxiii) "Plan Administrator" means the person appointed by the Board of Directors whose duties are provided in this Plan and Trust.
- (xxiv) "Plan Committee" means the committee appointed by the Board of Directors whose duties are provided in this Plan and Trust.
- (xxv) "Plan Year" means the Company's fiscal (taxable) year, as presently established, which ends on December 31 of each year, and this shall be the fiscal (taxable) year of the Trust. If there is a change in the Company's fiscal year, then "Plan Year" shall mean the Company's new fiscal year, and any short fiscal year resulting from such change shall be considered a full year for all purposes of this Plan. The "Plan Year" shall not change without approval of the Internal Revenue Service.
- (xxvi) "Qualifying Employer Security" means the Class A and Class B common stock of the Company.
- (xxvii) "Quarterly Anniversary Date" means January 1, April 1, July 1, or October 1 of each Plan Year.

- (xxviii) "Reemployment Commencement Date" means the first date after a Break in Service on which an Employee performs an Hour of Service for the Employer.
- (xxix) "Super Top Heavy Plan" means a plan in which the aggregate of the Accounts of Key Employees under the plan as of the Determination Date exceeds 90% of the aggregate of the Accounts of all Participants under the plan (as of the Determination Date for the Plan Year), excluding former Key Employees.
- (xxx) "Termination of Employment" means the termination of a person's status as an Employee as defined in Section 2.1(xii), as a Union Employee as defined in Section 2.1(xxxvi), or as a commissioned salesman.
- (xxxi) "Top Heavy Plan" means a plan in which the aggregate of the Accounts of Key Employees under the plan as of the Valuation Date exceeds 60 percent of the aggregate of the Accounts of all Participants under the Plan (as of the Determination Date for the Plan Year), excluding former Key Employees. The Accounts of Participants shall be

increased by the aggregate distributions made with respect to such Participants during the five-year period ending on the Determination Date. Section 2.1(xxxi) shall be interpreted to conform with Code Section 416. For purposes of determining whether this and any aggregated plans are top heavy or super top heavy, all defined benefit and defined contribution plans (including any simplified Employee pension plan) maintained or ever maintained by the Employer in which a Key Employee participates or on which any plan in which a Key Employee participates depends for qualification under Code Sections 401(a)(4) or 410 must be aggregated. Other plans maintained or ever maintained by the Employer may be aggregated if, when considered as a group with the plans that must be aggregated, they would continue to satisfy the requirements of Code Sections 401(a)(4) and 410.

- (xxxii) "Total Disability" means a disability that permanently renders a Participant unable to perform satisfactorily the usual duties of his employment with his Employer, as determined by a physician selected by the Plan Committee, and which results in his Termination of Employment with the Employer.
- (xxxiii) "Trust Fund" means the assets of the trust established by this Plan and Trust from which the benefits under this Plan shall be paid and shall include all income of any nature earned by the fund and all changes in fair market value.
- (xxxiv) "Trustee" means the person or persons appointed as trustee of the Trust Fund and any duly appointed and qualified successor trustee.
- (xxxv) "Trustee Responsibility" means any responsibility provided in the Plan to manage or control the assets of this Plan.
- (xxxvi) "Union Employee" means any Employee who is included in a unit of Employees covered by a collective bargaining agreement between Employee representatives and the Company or any Associated Company, if retirement benefits were the subject of good faith bargaining between such Employee representatives and the Company or Associated Company.

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- (xxxvii) "Valuation Date" means the last day of each Plan Year.
- (xxxviii) "Year of Service" for purposes of eligibility to participate means any 12-month period, measured from the Employee's Employment Commencement Date or Reemployment Commencement Date, in which the Employee completes 1,000 or more Hours of Service. For purposes of this definition, Hours of Service shall include service as an Employee in any capacity including Union Employee and commissioned salesman and shall include service as an Employee of an Employer under common control with the Company as defined in Code Sections 414(b), (c), (m), and (o) and the final regulations thereunder, or any other Company designated by the Plan Committee from time to time. Year of Service also shall include service with any company that is acquired directly or indirectly by any Employer participating in this Plan whether by acquisition of stock or assets if such company becomes part of the controlled group of corporations as defined in Code Section 414(b) or (c) of which the Company is a part. "Year of Service" for purposes of vesting means any Plan Year in which the Participant completes 1,000 or more Hours of Service.

Effective for acquisitions occurring on or after January 1, 1996, Year of Service also shall include Years of Service with any company that is acquired directly or indirectly by any Employer participating in this Plan whether by acquisition of stock or assets if such company becomes part of the controlled group of corporations as defined in Code Section 1563(a) of which the Company is a part and provided that such individual for whom such service is credited becomes an Employee of General Communication, Inc. as a result of the acquisition. Effective for Employees first employed by the Company on or after January 1, 1996, an Employee will be credited with Years of Service under this Plan for Years of Service with any company which has received services provided by the Company under a management or outsourcing contract between such company and General Communication, Inc. as a service provider (as determined by the Company) provided that such individual for whom such service is to be credited becomes an Employee of the Company directly from the company for which the Company serves as service provider (as determined by the Company).

Section 2.2 Gender. The masculine gender shall include the feminine and

neuter, and the singular shall include the plural.

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ARTICLE III  
PARTICIPATION

Section 3.1 Who May Become a Participant. Any Employee of an Employer on the Effective Date who has completed one Year of Service may become a Participant on the Effective Date of the Plan. Any other or new Employee of an Employer may become a Participant on any Quarterly Anniversary Date of the Plan following his having completed one Year of Service, provided such Employee must be an Employee of the Employer when he becomes a Participant.

Section 3.2 Participation Form. (a) Completion Requested. The participation form shall be available from the Plan Administrator. To become a Participant, each Employee must complete and return the form to the Plan Administrator on which he shall evidence the following: (i) his acceptance of participation in the Plan; and (ii) his consent to be bound by the terms and conditions of the Plan and all its amendments.

(b) Failure To Complete, Revocation. The failure to complete and return the form will be deemed to be an election not to become a Participant. An Employee may revoke this election and become a Participant by requesting, completing, and returning an application form before a subsequent Quarterly Anniversary Date of the Plan, if he otherwise is eligible.

Section 3.3 Effect of Break in Service on Becoming a Participant. (a) Year in Which the Employee Completes More Than 500 but Fewer Than 1,000 Hours of Service. An Employee who completes more than 500 but fewer than 1,000 hours of service during any 12-month period, measured from the Employee's employment or Reemployment Commencement Date, shall not be deemed to have completed a Year of Service nor to have suffered a Break in Service. For the purposes of Section 3.3(c) of this Plan, any breaks in service which are interrupted by a year in which the Employee has more than 500 but fewer than 1,000 hours of service shall be treated as inconsecutive breaks in service.

(b) Inclusion of Pre-Break Years of Service in General. All years of service prior to any period of up to five consecutive one year breaks in service, not excluded by reason of this section, shall be counted in determining who may become a Participant.

(c) Exclusion of Years of Service for Employees Without Vested Rights. Years of service completed prior to any Break in Service by an Employee who has no vested interest in any Employer contributions at the time of his reemployment shall not be counted in determining whether the Employee may become a Participant if the number of consecutive one-year breaks in service equals or exceeds the greater of five years or the aggregate number of years of service before such break. The aggregate number of years of service before such break shall not include any years of service which have been excluded by reason of a prior application of this Section 3.3(c).

Section 3.4 Participation Upon Reemployment. An Employee who has satisfied the service requirement under Section 3.1 of this Plan by reason of years of service prior to a Break in Service of one year or longer (which service has not been excluded under Section 3.3 of this Plan) may become a Participant immediately upon his reemployment. However, an Employee who becomes a Participant under this section may not commence contributions until the first Quarterly Anniversary Date occurring after reemployment pursuant to Section 4.1 of this Plan.

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Section 3.5 Military Service. Notwithstanding any provision of this Plan to the contrary, contributions, benefits and service credit with respect to qualified military service will be provided in accordance with Code Section 414(u).

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ARTICLE IV  
CONTRIBUTIONS

Section 4.1 Contributions and Salary Reductions by Participants. (a) General Rules. Each Participant shall make contributions to the Trust Fund only by means of regular payroll deductions, by elective deferrals, or in such other manner as the Plan Committee shall determine, which contributions shall be paid to the Trustee at least quarterly. Participant after-tax contributions by payroll deduction or by any other manner as the Plan Committee shall determine shall be referred to as voluntary contributions, and Participant pre-tax contributions shall be known as elective deferrals. Each Participant shall designate up to 10% of his Compensation in each payroll period, until changed by the Participant, as a elective deferral, plus any contributions under Section 4.1(c) of this Plan. A Participant may change his designation prospectively but not retroactively effective for any payroll period by filing a new election with the Plan Administrator prior to the last two weeks of the calendar quarter immediately preceding the quarter for which it is to be effective. A Participant may suspend his contributions to the Plan for any quarter by filing a written notice of suspension with the Plan Administrator at any time prior to the last two weeks of the calendar quarter immediately preceding the calendar quarter in which it is to be effective. Such notice shall remain effective until the Participant elects to make further Participant contributions, and no Employer contributions shall be made on behalf of the Participant during such suspension period. A Participant may authorize resumption of Participant contributions by filing a new contribution designation with the Plan Administrator at any time prior to the last two weeks of the calendar quarter immediately preceding the calendar quarter in which it is to be effective.

(b) Salary Reductions. To become or remain a Participant in this Plan, an eligible Employee must elect to reduce his Compensation in such manner as the Plan Committee shall determine not to exceed 10% of his Compensation per payroll period. Such election shall be made and may be changed at any time in accordance with Section 4.1(a) of this Plan. Contributions under this section shall be made in accordance with an agreement with the Company under which the Participant elects to reduce his Compensation by the amount determined at his discretion, and for purposes of Code Section 401(k) shall be deemed to be Company contributions. Agreements to reduce Compensation shall be subject to Sections 4.11 and 4.12 of this Plan.

(c) Nonqualified Voluntary Contributions. Each Plan Participant may contribute to the Plan for each Plan Year during which he is a Participant such amount of nonqualified voluntary contributions as he shall elect in his sole discretion, provided that such amount shall not exceed 10% of his Compensation for each payroll period. Nonqualified voluntary contributions shall be so designated in writing when made or when the Participant agrees to payroll deductions. All non-qualified voluntary contributions for the Plan Year shall be made during the Plan Year or within 30 days after the end of the Plan Year.

Section 4.2 Determination of Contribution by the Employer. The Plan Committee on behalf of each Employer shall pay into the Trust Fund at least annually an amount up to 100% of each Participant's elective deferral and voluntary contributions to the Plan which are invested in Qualifying Employer Securities pursuant to Section 10.1(d), as the Board of Directors shall determine by resolution; provided, however, that the Employer contribution on behalf of Participants who have elected to direct the investment of any portion of their elective deferrals and voluntary contributions into investments other than Qualifying Employer Securities will receive an Employer matching

contribution of up to 50% of the Participant's elective deferral and voluntary contributions to the Plan. The Employer's contribution on behalf of any Participant who elects to direct the investment of any portion of his elective deferrals and voluntary contributions into investments other than Qualifying Employer Securities under Section 10.1(d) shall be equal to a stated percentage of each such Participant's contributions (both voluntary contributions and elective deferrals) under Section 4.1 of this Plan during any payroll period, and the Employer's contribution on behalf of any Participant who elects to direct the investment of all of his elective deferrals and voluntary contributions into Qualifying Employer Securities under Section 10.1(d) shall be equal to a stated percentage of each such Participant's contributions (both voluntary contributions and elective deferrals) under Section 4.1 of this Plan during any payroll period. No Participant's elective deferral or voluntary contributions shall be matched in an amount exceeding 10% of such Participant's Compensation during any payroll period the Participant participates in the Plan. Except as provided in Section 7.3 of this Plan, the amount of the Employer's contribution shall not exceed either 10% of the aggregate Compensation of all Participants under this Plan in the year for which the contribution is being determined or the annual addition limitations of the Code as provided in Sections 4.8 or 4.9 of this Plan.

Section 4.3 Time and Method of Payment of Contribution by the Employer. The Plan Committee on behalf of the Employer may make payment of its contribution



for any Plan Year in installments on any date or dates it elects, provided that the amount of its contribution for any year shall be paid in full within the time prescribed in order to qualify such payment as an income tax deduction for such year under the Code or any other provisions of law and provided further that the final allocation of such Employer contribution shall not be made to an Account until the last day of the Plan Year. Such contribution may be made in cash, in Qualifying Employer Securities (as determined by the Company), or in property of the character in which the Trustee is authorized to invest the Trust Fund. Contributions of property other than cash or Qualifying Employer Securities shall be subject to the approval of the Trustee and the Plan Committee.

Section 4.4 To Whom Contributions Are To Be Paid. The Employer's contributions for any Plan Year shall be paid to the Trustee and shall become a part of the Trust Fund.

Section 4.5 Return of Employer Contributions. (a) Circumstances Under Which Return Will Be Made. A contribution by the Employer to the Plan shall be returned to the Company, at the Employer's discretion, under any of the following circumstances: (i) if a contribution is made by the Employer by a mistake of fact, including a mistaken excess contribution, within one year of its payment to the Plan; (ii) if initial qualification of the Plan is denied, within one year after the date of denial of initial qualification of the Plan; or (iii) if all or any part of the deduction of the contribution is disallowed, to the extent of the disallowance, within one year after the disallowance of the deduction.

(b) Amount of Return. The Employer shall state by written request to the Trustee the amount of the contribution to be returned and the reason for such return. Such amount shall not include any earnings attributable to the contribution and shall be reduced by any losses attributable to the contribution. Upon sending such request to the Trustee, the Employer simultaneously shall send to the Plan Committee a copy of the request. The Trustee shall return such contributions to the Employer immediately upon receipt of the written request by the Employer. All contributions by the Employer to the Plan are declared to be conditioned upon both the qualification of the Plan under Section 401 of the Code and the deductibility of such contributions Under Section 404 of the Code.

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Section 4.6 Employer's Obligations. The adoption and continuance of the Plan shall not be deemed to constitute a contract between the Employer and any Employee or Participant, nor to be a consideration for, or an inducement or condition of, the employment of any person. Nothing in this Plan shall be deemed to give any Employee or Participant the right to be retained in the employ of the Employer, or to interfere with the right of the Employer to discharge any Employee or Participant at any time, nor shall it be deemed to give the Employer the right to require the Employee or Participant to remain in its employ, nor shall it interfere with the right of any Employee or Participant to terminate his employment at any time.

Section 4.7 Rollover Contributions and Transfers. Notwithstanding the limits imposed upon Participant contributions, a Participant may contribute any amount of funds or property to the Plan in any year if such contribution satisfies the requirements under law for rollover contributions and if the Plan Committee agrees in writing to accept such contribution on behalf of the Plan and the Employer. Subject to the direction of the Plan Committee, the Trustee is authorized to receive and add to the Trust Fund those assets attributable to employees who were participants in the Western Tele-Communications, Inc. Employee Stock Purchase Plan. A direct transfer from a qualified Plan subject to Code Section 417 shall not be permitted. The Employer shall not be required under Section 4.2 of this Plan to make any matching contributions for such rollover contributions or transfers. Rollover contributions and transfers shall be added to a separate Account for such Participant, shall be nonforfeitable, and shall be distributable under Article VII of this Plan. Transfers from the Western Tele-Communications, Inc. Employee Stock Purchase Plan shall be subject to Section 10.1(d) of this Plan.

Section 4.8 Annual Addition. (a) Limitations. For the purpose of this Section 4.8, the term "Annual Addition" includes Employer contributions and forfeitures and any Participant's voluntary contributions. Annual Addition shall not include any direct transfer or any contribution made by a Participant which qualified under law as a rollover contribution. The annual limitation year shall be the Plan Year. If the Annual Addition to the Account of any Participant, attributable to all defined contribution plans (including money purchase pension plans or profit-sharing plans of the Employer), would exceed either \$30,000 or 25% of such Participant's Compensation, the excess amount shall be disposed of as follows:

(i) any Participant contributions, to the extent that the return would

reduce the excess amount, shall be returned to the Participant;

- (ii) The amount of such excess attributable to Employer contributions and any forfeitures shall be allocated and reallocated to other Participants' Accounts in accordance with Article V of this Plan to the extent that such allocations do not cause the additions to any such Participant's Account to exceed the lesser of the maximum permissible amount or any other limitation provided in the Plan;
- (iii) To the extent that the excess amounts described in Section 4.8(a)(ii) of this Plan cannot be allocated to other Participant Accounts, such excess amounts shall be allocated to the suspense Account in accordance with Article V of this Plan and allocated to Participants under the provisions of that article.

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(b) Compensation Defined. For purposes of limiting Annual Additions under this section and combined benefits and contributions under Section 4.9 of this Plan, compensation means a Participant's wages, salaries, fees for professional services, and other amounts received for personal services actually rendered for the Employer (including but not limited to, commissions paid salesmen, compensations for services on the basis of a percentage of profits, commissions on insurance premiums, tips, and bonuses).

- (i) For Plan Years beginning prior to December 31, 1997, compensation for Annual Additions purposes shall not include the following: (A) Employer contributions to a deferred compensation plan that are not includable in the Employee's gross income for the year in which contributed, Employer contributions to a simplified Employee pension plan described under Code Section 408(k) to the extent such contributions are deductible by the Employee, or any distributions from a deferred compensation plan other than amounts received from an unfunded nonqualified plan; (B) amounts realized from the exercise of a nonqualified stock option or when restricted stock (or property) held by the Employee either becomes freely transferable or is no longer subject to substantial risk of forfeiture; (C) amounts realized from the sale, exchange, or other disposition of stock acquired under a qualified stock option; or (D) other amounts which received special tax benefits, or Employer contributions to purchase an annuity contract described in Code Section 403(b), whether or not under a elective deferral agreement or whether or not the amounts actually are excludable from the gross income of the Employee.
- (ii) For Plan Years beginning after December 31, 1997, "Compensation" shall include elective deferrals (as defined in Code Section 402(g)) and any amounts which are not included in the Participant's gross income by reason of Code Sections 125 (cafeteria plans) and 457 (deferrals to governmental plans). All determinations of Compensation will be made in accordance with Code Section 415(c)(3), as it may be amended from time to time.

Section 4.9 Limitation on Combined Benefits and Contributions of All Defined Benefit and Defined Contribution Plans of the Employer. (a) Employer Contributions. In any year if the Employer makes contributions to a defined benefit plan on behalf of an Employee who also is a Participant in this Plan, then the sum of the defined benefit plan fraction and the defined contribution plan fraction (both as prescribed by law and as defined below) for such Employee for such year shall not exceed 1.0. In any year if the sum of the defined benefit plan fraction and the defined contribution plan fraction on behalf of an Employee does exceed 1.0, then the Employer's contribution on behalf of such Participant to this defined contribution plan of the Employer shall be reduced to the extent necessary to prevent the sum of the defined contribution plan fraction and the defined benefit plan fraction from exceeding 1.0. The Employer's contribution on behalf of such Participant to this Plan may be reallocated to other Participants under Article V of this Plan to the extent necessary to prevent the sum of the defined contribution plan fraction and the defined benefit Plan fraction from exceeding 1.0. If any amount cannot be allocated or reallocated without exceeding the limits provided in this Article, such amount may be allocated to the suspense Account established under Article V of this Plan and allocated to the Participants in accordance with the provisions of Article V of this Plan. For purposes of this section the limitation year shall be the Plan Year.

(b) Defined Benefit Plan Fraction. The defined benefit plan fraction is a fraction the numerator of which is the projected annual benefit of the Participant under the Plan (determined as of the close of the year) and the denominator of which is the lesser of the following amounts determined for such year and for each prior Year of Service with the Employer: (i) the product of 1.25 times the maximum benefit dollar limitation in effect for the limitation year; or (ii) the product of 1.4 times 100% of the Participant's average Compensation for his high three consecutive calendar years.

(c) Defined Contribution Plan Fraction. The defined contribution plan fraction is a fraction the numerator of which is the sum of the annual additions to the Participant's Account under all defined contribution Plans of the Employer as of the close of the limitation year and the denominator of which is the sum of the lesser of the following amounts determined for such year and for each prior Year of Service with the Employer: (i) the product is 1.25 times the dollar limitations in effect under Code Section 415(c)(1)(A) for the limitation year (without regard to Code Section 415(c)(6)); or (ii) the product of 1.4 times an amount equal to 25% of the Participant's Compensation for the limitation year.

(d) Transition Rules. The Plan Committee, in its discretion, may elect to use the transition rules for calculating the defined contribution plan fraction as provided in Code Sections 415(e)(4) and 415(e)(6).

(e) Limitation Years Beginning After December 31, 1999. This Section 4.9 shall not apply to any limitation year beginning after December 31, 1999.

Section 4.10 Top Heavy Plan Provisions. (a) Plan Years after December 31, 1983. The provisions of this section shall have effect for any Plan Years beginning after December 31, 1983 in which the Plan is top heavy.

(b) Minimum Contribution. If no other qualified plan maintained by the Employer provides the minimum benefit or contribution for Participants as required under Code Section 416(c) for a year that the plan is top heavy, this Plan shall provide a minimum allocation (which may include forfeitures otherwise allocable) for such Plan Year for each Participant who is a non-Key Employee in an amount equal to at least three percent of such Participant's Compensation for such Plan Year. Notwithstanding the preceding sentence, the minimum allocation required under this Section 4.10 shall in no event exceed the percentage of contributions made under the Plan for such year for the Key Employee for whom such percentage is the highest for such year. If Employees who are Participants in this Plan also participate in a defined benefit plan maintained by the Employer and both plans are top heavy in any year, the Employer may elect to satisfy the minimum contribution requirements of Code Section 416(c) and the regulations thereunder by providing a minimum allocation (which may include forfeitures otherwise allocable) for such Plan Year for each Participant (for purposes of Code Section 416(c) and the regulations thereunder) who is a non-Key Employee in an amount equal to at least 5% of such Participant's Compensation for such Plan Year. For purposes of this Section 4.10, Participants who must be considered Participants to satisfy the coverage requirements of Code Section 410(b) in accordance with Code Section 401(a)(5) and who have not separated from service at the end of the Plan Year shall be eligible to share this minimum contribution including Participants who have failed to complete 1,000 or more hours of service, who have declined to make mandatory contributions to the Plan or who have been excluded because such

Participant's Compensation is less than a stated amount. Compensation for purposes of this Section 4.10 shall mean Compensation as defined in Section 4.8 of this Plan. Elective deferral contributions may not be used to satisfy the minimum contribution required under this section 4.10. If, in any top-heavy year, the highest percentage of Employer contributions and forfeitures allocated to any Key Employee is less than three percent, amounts allocated as a result of any Key Employee's elective deferrals must be included in determining the Employer contribution made on behalf of such Key Employees.

(c) Modification of Plan Fractions. The 1.25 factor in the defined benefit plan fraction and defined contribution Plan fraction (as such fractions are defined in the preceding section) shall be reduced to 1.0 for any year that the Plan is top heavy. If the Plan is super top heavy, the 1.25 factor also shall be reduced to 1.0 for the Plan Year.

(d) Maximum Compensation Limitation. The annual Compensation considered for each Participant for purposes of the Plan for any year that the Plan is top heavy shall not exceed such Participant's Compensation (as limited

by Code Section 401(a)(17)).

Section 4.11 Salary Reduction Rules. (a) Election to Reduce Salary. As a condition of participation, an Employee eligible to participate in this Plan must elect to reduce his or her Compensation by an amount determined at his or her discretion (annually not to exceed the lesser of the amount specified for a given calendar year by the Internal Revenue Service or 10% of Compensation). A Participant must make this election according to the procedure prescribed by and on the form provided by the Plan Committee.

(b) Nondiscriminatory Benefits. All Participants are eligible to defer identical percentages of their Compensation, regardless of the amount of such Compensation; provided such percentage does not result in a deferral of more than the limitation imposed under Code Section 402(g) in any calendar year. A Participant may assign to this Plan any excess elective deferrals made during a taxable year of the Participant by notifying the Plan Administrator on or before the following March 15 of the amount of the excess elective deferrals to be assigned to the Plan. A Participant is deemed to have notified the Plan Administrator of any excess elective deferrals that arise taking into account only those elective deferrals made to this Plan and any other plans of the Employer. An excess elective deferral is any elective deferral during a calendar year in excess of the dollar limitation in effect under Code Section 402(g) for such year. On or before the April 15th following the end of each calendar year, the Company will distribute excess elective deferrals (plus any allocable income and minus any allocable loss) to any Participant to whose Account excess elective deferrals were made or assigned for the preceding year and who claims excess elective deferrals for such taxable year or who is deemed to have notified the Plan Administrator of such excess. The income or loss attributable to excess elective deferrals is the income or loss for the year allocable to the Participant's elective deferrals multiplied by a fraction, the numerator of which is the Participant's excess elective deferrals for such year and the denominator of which is the total Account balance of the Participant attributable to elective deferrals, without regard to any income or losses allocable to such elective deferrals for the calendar year. Alternatively, in the discretion of the Committee, income allocable to the Participant's excess elective deferrals may be determined under any reasonable method used by the Plan for allocating income on Plan assets.

(c) Limit on Actual Deferral Percentage. The Actual Deferral Percentage for Participants who are Highly Compensated Employees for each Plan Year and the Actual Deferral Percentage for

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Participants who are Non-Highly Compensated Employees for the same Plan Year must satisfy one of the following tests:

- (i) The Actual Deferral Percentage for the Plan Year for Participants who are Highly Compensated Employees may not exceed the Actual Deferral Percentage for the preceding Plan Year for Participants who are Non-Highly Compensated Employees multiplied by 1.25 times; or
- (ii) The Actual Deferral Percentage for the Plan Year for Participants who are Highly Compensated Employees may not exceed the Actual Deferral Percentage for the preceding Plan Year for Participants who are Non-Highly Compensated Employees multiplied by 2.0, provided that the Actual Deferral Percentage for the Plan Year for Participants who are Highly Compensated Employees does not exceed the Actual Deferral Percentage for the preceding Plan Year for Participants who are Non-Highly Compensated Employees by more than two percentage points.

The following rules regarding the Actual Deferral Percentage will apply:

- (i) The Actual Deferral Percentage for the Plan Year for any Highly Compensated Employee who is eligible to have elective deferrals (and qualified non-elective contributions or qualified matching contributions, or both, if such contributions are treated as elective deferrals for purposes of the Actual Deferral Percentage test) allocated to his or her Account under two or more arrangements described in Code Section 401(k) that are maintained by the Company will be determined as if such elective deferrals (and, if applicable, such qualified non-elective contributions or qualified matching contributions, or both) were made under a single arrangement. If a Highly Compensated Employee participates in two or more cash or deferred

arrangements that have different Plan Years, all cash or deferred arrangements ending with or within the same calendar year will be treated as a single arrangement;

- (ii) In the event that this Plan satisfies the requirements of Code Sections 401(k), 401(a)(4), or 410(b) only if aggregated with one or more other plans, or if one or more other plans satisfy the requirements of such Code Sections only if aggregated with this Plan, then this section will be applied by determining the Actual Deferral Percentage of Participants as if all such plans were a single plan. Plans may be aggregated in order to satisfy Code Section 401(k) only if they have the same Plan Year;
- (iii) For purposes of determining the Actual Deferral Percentage, elective deferrals, qualified non-elective contributions, and qualified matching contributions must be made before the last day of the twelve-month period immediately following the Plan Year to which such contributions relate; and
- (iv) The Company will maintain records sufficient to demonstrate satisfaction of the Actual Deferral Percentage test and the amount of qualified non-elective contributions or qualified matching contributions, or both, used in such test.

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(d) Nonforfeitability of Elective Contributions. All elective deferral contributions made on behalf of Participants to this Plan are vested immediately. Such elective deferrals are nonforfeitable at all times.

(e) Distributions Restriction. Elective deferrals shall be subject to the restrictions on withdrawals under Section 7.6 of this Plan.

(f) Definitions.

- (i) The "Actual Deferral Percentage" for a specified group of Participants for a Plan Year is the average of the ratios (calculated separately for each Participant in such group) of the amount of deferrals made under the Plan on behalf of each such Participant for the Plan Year to the Participant's Compensation for the entire Plan Year (whether or not the Participant was a Participant for the entire Plan Year) or for the portion of such Plan Year during which the Employee was a Participant, as determined by the Company for such Plan Year so long as such determination is applied uniformly to Participants under the Plan for such Plan Year. Deferrals on behalf of any Participant include [A] any elective deferrals made pursuant to the Participant's deferral election, including excess elective deferrals, but excluding elective deferrals that are taken into account in the Average Contribution Percentage test (provided the Actual Deferral Percentage test is satisfied both with and without exclusion of these elective deferrals); and [B] in the discretion of the Company, all qualified non-elective contributions or such qualified non-elective contributions as are necessary to meet the Actual Deferral Percentage test and all qualified matching contributions or such qualified matching contributions as are necessary to meet the Actual Deferral Percentage test. For purposes of computing Actual Deferral Percentages, an Employee who would be a Participant but for the failure to make elective deferrals will be treated as a Participant on whose behalf no elective deferrals are made.
- (ii) "Elective Deferrals" means any Company contributions made to the Plan at the election of the Participant in lieu of cash compensation, including contributions made pursuant to a elective deferral agreement or other deferral arrangement. A Participant's elective deferrals in any calendar year are the sum of all Company contributions made on behalf of such Participant pursuant to an election to defer under any arrangement described in Code Section 401(k), any simplified employee pension cash or deferred arrangement described in Code Section 402(h)(1)(B), any

eligible deferred compensation plan under Code Section 457, any plan as described in Code Section 501(c)(18), and any Company contributions made on behalf of a Participant pursuant to a elective deferral agreement for the purchase of an annuity contract under Code Section 403(b).

- (iii) "Participant" for purposes of this Section 4.11 only includes all Employees eligible to participate in this Plan even if not electing to do so.

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- (iv) "Compensation" for purposes of this Section 4.11 means only Compensation as defined in Section 2.1(ix) of this Plan prior to any elective deferrals under Section 4.1 of this Plan.

(g) Distribution of Excess Contributions. An excess contribution is the excess, in any Plan Year, of the aggregate amount of contributions actually taken into account in determining the Actual Deferral Percentage for Highly Compensated Employees over the maximum amount of such contributions permitted by the Actual Deferral Percentage test, determined by reducing contributions made on behalf of Highly Compensated Employees beginning with the Highly Compensated Employee with the highest amount of elective deferrals for such Plan Year. In the event that excess contributions are made for any Plan Year, the Committee will distribute the excess contributions in accordance with this paragraph. On or before the 15th day of the third month following the end of each Plan Year, but in no event later than the close of the following Plan Year, each Highly Compensated Employee will have his or her portion of the excess contribution, adjusted for any income or loss allocable to such portion, distributed to him. The income or loss attributable to excess contributions is the income or loss for the Plan Year allocable to the Participant's elective deferral Account (and, if applicable, the qualified non-elective contribution Account or the qualified matching contribution Account, or both) multiplied by a fraction, the numerator of which is the Participant's excess contributions for the Plan Year and the denominator of which is the Participant's Account balance attributable to elective deferrals (and qualified non-elective contributions or qualified matching contributions, or both, if any such contributions are taken into account in determining the actual deferral percentage), without regard to any income or losses allocable to such contributions for the Plan Year. Alternatively, in the discretion of the Committee, income allocable to the Participant's excess contributions may be determined under any reasonable method used by the Plan for allocating income on Plan assets. Excess contributions will be distributed from the Participant's elective deferral Account and qualified matching contributions Account, if applicable, in proportion to the Participant's elective deferrals and qualified matching contributions (to the extent used in the actual deferral percentage test) for the Plan Year. Excess contributions will be distributed from the Participant's qualified non-elective contribution Account only to the extent that such excess contributions exceed the balance in the Participant's elective deferral Account and qualified matching contributions account. If excess contributions are not distributed by the 15th day of the third month following the end of the Plan Year in which such excess contributions arose, a ten percent excise tax will be imposed on the Company with respect to such excess contributions. Matching contributions attributable to excess contributions that are distributed to a Participant shall be forfeited as of the distribution date of the excess contribution.

Section 4.12 Nondiscrimination Rules for Voluntary Contributions and Employer Contributions. (a) Limit on Average Contribution Percentage. The Average Contribution Percentage for Participants who are Highly Compensated Employees for each Plan Year and the Average Contribution Percentage for Participants who are Non-Highly Compensated Employees for the same Plan Year must satisfy one of the following tests:

- (i) The Average Contribution Percentage for the Plan Year for Participants who are Highly Compensated Employees may not exceed the Average Contribution Percentage for the preceding Plan Year [need confirmation] for Participants who are Non-Highly Compensated Employees multiplied by 1.25 times; or

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- (ii) The Average Contribution Percentage for the Plan Year for Participants who are Highly Compensated Employees may not exceed the Average Contribution Percentage for the preceding Plan Year for Participants who are Non-Highly Compensated Employees multiplied by 2.0,

provided that the Average Contribution Percentage for the Plan Year for Participants who are Highly Compensated Employees does not exceed the Average Contribution Percentage for the preceding Plan Year for Participants who are Non-Highly Compensated Employees by more than two percentage points.

- (i) Multiple Use: If one or more Highly Compensated Employees participate in both a cash or deferred arrangement and a plan subject to the Average Contribution Percentage test maintained by the Company and the sum of the Actual Deferral Percentage and Average Contribution Percentage of those Highly Compensated Employees subject to either or both tests exceeds the Aggregate Limit, then the Average Contribution Percentage of those Highly Compensated Employees who also participate in a cash or deferred arrangement will be reduced (beginning with such Highly Compensated Employee with the highest amount of such contributions for such Plan Years) so that the Aggregate Limit is not exceeded. The amount by which each Highly Compensated Employee's contribution amount is reduced will be treated as an excess aggregate contribution. The Actual Deferral Percentage and Average Contribution Percentage of the Highly Compensated Employees are determined after any corrections required to meet the Actual Deferral Percentage and Average Contribution Percentage tests. Multiple use does not occur if both the Actual Deferral Percentage and the Average Contribution Percentage of the Highly Compensated Employees do not exceed 1.25 times the Actual Deferral Percentage and Average Contribution Percentage of the Non-Highly Compensated Employees;
- (ii) The Average Contribution Percentage for the Plan Year for any Highly Compensated Employee who is eligible to have contribution percentage amounts allocated to his or her Account under two or more arrangements described in Code Section 401(k) that are maintained by the Company will be determined as if such contribution percentage amounts were made under a single arrangement. If a Highly Compensated Employee participates in two or more cash or deferred arrangements that have different Plan Years, all cash or deferred arrangements ending with or within the same calendar year will be treated as a single arrangement;
- (iii) In the event that this Plan satisfies the requirements of Code Sections 401(m), 401(a)(4), or 410(b) only if aggregated with one or more other plans, or if one or more other plans satisfy the requirements of such Code Sections only if aggregated with this Plan, then this section will be applied by determining the contribution percentage of Participants as if all such plans were a single plan. Plans may be aggregated in order to satisfy Code Section 401(m) only if they have the same Plan Year;

- (iv) For purposes of determining the Average Contribution Percentage test, Participant contributions are considered to have been made in the Plan Year in which contributed to the Trust. Matching contributions and qualified non-elective contributions will be considered made for a Plan Year if made no later than the end of the twelve-month period beginning on the day after the close of the Plan Year. A matching contribution (including a qualified matching contribution) that is forfeited to correct excess contributions, or because it is attributable to an excess contribution or excess deferral will not be taken into account for purposes of determining the contribution percentage test; and
- (v) The Company will maintain records sufficient to demonstrate satisfaction of the Average Contribution Percentage test and the amount of qualified non-elective contributions or qualified matching contributions, or both, used in such test.
- (vi) An excess aggregate contribution is the excess, in any

Plan Year, of the aggregate contribution percentage amounts taken into account in determining the numerator of the average contribution percentage actually made on behalf of Highly Compensated Employees over the maximum contribution percentage amounts permitted by the average contribution percentage test, determined by reducing contributions made on behalf of Highly Compensated Employees beginning with the Highly Compensated Employee with the highest contribution percentage. In the event that excess aggregate contributions are made for any Plan Year, the Committee will distribute the excess aggregate contributions in the same manner as excess contributions are distributed, as provided above. Income and losses attributable to excess aggregate contributions will be determined and distributed along with the excess aggregate contributions in the manner provided above.

- (vii) In lieu of distributing excess contributions as provided above or excess aggregate contributions as provided above, the Company, in its discretion, may make qualified non-elective contributions on behalf of all Participants or all Participants who are non-Highly Compensated Employees, in the Company's discretion, that are sufficient to satisfy either the actual deferral percentage test or the average contribution percentage test, or both, pursuant to regulations under the Code. "Qualified non-elective contributions" means contributions (other than matching contributions or qualified matching contributions) made by the Company and allocated to Participants' Accounts that the Participants may not elect to receive in cash until distributed from the Plan, that are nonforfeitable when made, and that are distributable only in accordance with the distribution provisions that are applicable to elective deferrals and qualified matching contributions.

(b) Definitions.

- (i) The "Average Contribution Percentage" for a specified group of Participants for a Plan Year is the average of the ratios (calculated separately for each Participant in such group) of the sum of the Participant contributions, matching contributions, and qualified matching contributions (to the extent

such contributions are not taken into account for purposes of the actual deferral percentage test) made on behalf of the Participant for the Plan Year to the Participant's Compensation for the entire Plan Year (whether or not the Participant was a Participant for the entire Plan Year) or for the portion of the Plan Year during which the Employee was a Participant in the Plan, as determined by the Company for such Plan Year so long as such determination is applied uniformly to all Participants under the Plan for such Plan Year. Matching and qualified matching contributions on behalf of any Participant in any Plan Year include [A] in the discretion of the Company, all qualified non-elective contributions or such qualified non-elective contributions, as are necessary to meet the average contribution percentage test; and [B] in the discretion of the Company, all elective deferrals made pursuant to the Participant's deferral election or such elective deferrals as are necessary to meet the average contribution percentage test (provided that the actual deferral percentage test is satisfied both with and without the exclusion of these elective deferrals). Such contribution percentage amounts shall not include matching contributions that are forfeited either to correct excess aggregate contributions or because the contributions to which they relate are excess deferrals, excess contributions or excess aggregate contributions.

- (ii) "Aggregate Limit" means the greater of:
  - (A) the sum of [i] 1.25 times the greater of the Actual Deferral Percentage of Non-Highly Compensated Employees for the Plan Year or the



Average Contribution Percentage of Non-Highly Compensated Employees for the Plan Year beginning with or within the Plan Year of the cash or deferred arrangement; and [ii] the lesser of two times or two plus the lesser of such Actual Deferral Percentage or Average Contribution Percentage; or

(B) the sum of [i] 1.25 times the lesser of the Actual Deferral Percentage of Non-Highly Compensated Employees for the Plan Year or the Average Contribution Percentage of Non-Highly Compensated Employees for the Plan Year beginning with or within the Plan Year of the cash or deferred arrangement; and [ii] the lesser of two times or two plus the greater of such Actual Deferral Percentage or Average Contribution Percentage.

(iii) "Compensation" for purposes of this Section 4.12 only, will mean compensation as defined in Code Section 2.1(ix) of this Plan prior to any elective deferrals under Section 4.1 of this Plan.

(iv) "Participant Contribution" means any contribution made to the Plan by or on behalf of a Participant that is included in the Participant's gross income in the year in which made and that is maintained under a separate Account to which earnings and losses are allocated.

(v) "Matching Contribution" means a Company contribution made to this or any other defined contribution plan on behalf of a Participant on account of a

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Participant contribution made by such Participant, or on account of a Participant's elective deferral, under a Plan maintained by the Company.

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#### ARTICLE V

##### DETERMINATION AND VESTING OF PARTICIPANT ACCOUNTS

Section 5.1 Determination of Participants' Accounts. (a) Allocation of Contributions. As of the last day of each calendar quarter the Plan Committee shall allocate to the Account of each Participant (including a Participant who terminates employment during the quarter) any amounts contributed by the Employer to the Trust on behalf of such Participant under Section 4.2 of this Plan for the calendar quarter then ended. Forfeitures under Section 7.3 of this Plan shall be allocated along with Employer contributions during the first calendar quarter after the end of the year in which the forfeitures occur. The maximum allocation under this Section 5.1(a) to any Participant for any Plan Year shall not exceed 10% of such Participant's Compensation. Voluntary contributions and elective deferrals under Section 4.1 of this Plan shall be allocated to the Account of the Participant making such contribution.

(b) Allocation of Earnings, Losses and Changes in Fair Market Value of the Net Assets of the Trust Fund; Allocation of Qualifying Employer Securities. Each class (whether Class A or Class B) of Qualifying Employer Securities shall be allocated to the Accounts of Participants as of the end of each biweekly payroll period or as of the end of each calendar quarter after acquired by the Trust Fund in the ratio that contributions under Section 4.1 of this Plan made to each Account in the calendar quarter bear to the total contributions under that Section 4.1 made to all Accounts for the calendar quarter. Any dividends, cash or stock, paid on Qualifying Employer Securities shall be allocated along with the Qualifying Employer Securities on which they are paid. Once Qualifying Employer Securities are allocated to a Participant's Accounts, any dividends, cash or stock, paid on such allocated securities shall be allocated directly to such Accounts. Earnings and losses of the Trust Fund (other than on Qualifying Employer Securities) shall be computed and allocated to the Participants in the ratio which the total dollar value of the Account (whether or not vested and excluding Qualifying Employer Securities) of each Participant in the Trust Fund bears to the aggregate dollar value of the Accounts (excluding Qualifying Employer Securities) of all Participants as of the annual computation date. Only Participants in the Plan on the last day of the Plan Year shall share in the allocation of earnings, losses and changes in fair market value of the net assets of the Trust Fund (other than Qualifying

Employer Securities) for that year. Losses and declines in value of Participants' Accounts will not be considered to be a forfeiture.

(c) Participant Accounts. The Plan Committee shall maintain an Account for each Participant showing the number of shares allocated to his Account in the Trust Fund as of the last previous annual computation date attributable to any contributions made by the Employer, including any Employer contributions for the year ending on such date. This Account shall be known as the Employer contributions Account. Separate Accounts also shall be kept, showing the voluntary and elective deferral contributions of each Participant, shares allocated, and the earnings, losses and changes in fair market value thereof. The Plan Committee shall distribute, or cause to be distributed, to each Participant at least annually a written statement setting forth the value of such Participant's Accounts as of the last day of the Plan Year, and such other information as the Plan Committee shall determine. Qualifying Employer Securities shall be valued at the mean between dealer "bid" and "ask" closing prices of the stock in the over-the-counter market as reported by the National Association of Securities Dealers, Inc., or in the "pink sheets" published by the National Quotation Bureau, Inc. Valuations of Qualifying Employer Securities that are not readily tradable on an established securities market shall be made by an independent appraiser.

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(d) Valuation Dates. The Valuation Date of the Trust Fund shall be the last day of each Plan Year, and such other dates as determined by the Committee, at which time the Plan Committee shall determine the value of the net assets of the Trust Fund (i.e., the value of all the assets of the Trust Fund at their then current fair market value, less all liabilities) and the value of contributions by each Employer and all Participants for such year.

(e) Computation Dates. The Plan Committee shall compute the value of each Participant's Account annually on the last day of each Plan Year and shall base such computations on the valuation of the assets in the Trust Fund on the Valuation Date coincident with such date. Upon direct distribution under Section 7.2(a) of this Plan, the Plan Committee shall make a special computation by which it shall adjust the value of such Participant's Account to reflect the values determined as of the most recent Quarterly Anniversary Date prior to the occurrence of such direct distribution. The value of his Account as so adjusted shall be the amount which the Plan Committee shall use in determining the amount which shall be distributable to such Participants. The Plan Committee shall be under no obligation to compute the value of any Participant's Account more than once annually, unless an event occurs which requires the direct distribution of any part of a Participant's Account, in which case the Plan Committee shall compute the Account of such Participant as provided above and, in its discretion, may compute the Account of each Participant. To the extent Qualifying Employer Securities have been allocated to the Account of any Participant, the Plan Committee may distribute such Qualifying Employer Securities in kind without a special computation of value.

(f) Suspense Account for Unallocated Amounts. If the amount to be allocated to any Participant's Account would exceed the contribution limitations of Sections 4.8 or 4.9 of this Plan, a separate suspense Account shall be established to hold such unallocated amounts for any year or years provided that: (i) no Employer contributions may be made at any time when their allocations would be precluded by Section 415 of the Code; (ii) investment gains and losses and other income are not allocated to the suspense Account; and (iii) the amounts in the suspense Account are allocated under Section 5.1(a) of this Plan as of each allocation date on which such amounts may be allocated until the suspense Account is exhausted. In the event of Plan termination, the balance of such suspense Account may revert to the Company, subject to regulations governing such reversion.

Section 5.2 Vesting of Participants' Accounts. (a) General Rules. If any Participant reaches his Normal Retirement Age, dies, or suffers Total Disability while a Participant, his entire Account shall become fully vested without regard to the number of years of service such Participant has had with the Employer. Any Account whether vested or forfeitable shall become payable to a Participant or his beneficiaries only to the extent provided in this Plan. A Participant or former Participant who has designated a Beneficiary and who dies shall cease to have any interest in this Plan or in his Account, and his Beneficiary shall become entitled to distribution of the Participant's Account under this Plan and not as a result of any transfer of the interest or Account. A Participant's Account attributable to his own contributions or attributable to a rollover contribution shall be fully vested at all times.

(b) Vesting Schedule. A Participant shall have a vested interest in the portion of his Account attributable to Employer contributions, in accordance with the following schedule:

Years of Service	Percentage of Account Which is Vested
Fewer than 1	0
1 or more but fewer than 2	20
2 or more but fewer than 3	30
3 or more but fewer than 4	45
4 or more but fewer than 5	60
5 or more but fewer than 6	80
6 or more	100

Section 5.3 Full Vesting Upon Termination or Partial Termination of Plan or Upon Complete Discontinuance of Employer Contributions. Upon the termination or partial termination of this Plan or upon complete discontinuance of Employer contributions, the Accounts of all Participants affected, as of the date such termination, partial termination, or complete discontinuance of Employer contributions occurred, shall be fully vested.

Section 5.4 Service Included in Determination of Vested Accounts. All years of service with the Company and any Associated Company shall be included for the purpose of determining a Participant's vested Account under Section 5.2 of this Plan, except years of service excluded by reason of a Break in Service under Section 5.5 of this Plan.

Section 5.5 Effect of Break in Service on Vesting. With respect to a Participant who has five or more consecutive one-year breaks in service, years of service after such Break in Service shall not be taken into account for purposes of computing the Participant's vested Account balance attributable to Employer contributions made before such five or more year period.

Section 5.6 Effect of Certain Distributions. (a) Participant Contributions. The provisions of this Section 5.6 shall not apply to any Participant contributions (including elective deferrals) or rollover contributions.

(b) Repayment of Distribution. A Participant who terminates participation for any reason other than retirement, disability, or death while any portion of his Account in the Trust Fund is forfeitable and who receives a distribution of his vested Account attributable to Employer contributions shall have the right to pay back such distribution to the Plan. Such repayment may be made (i) only if the Participant has returned to the employ of the Company or any Associated Company, and (ii) before the earlier of the date which is five years after the date the Participant is re-employed by the Employer, or the date on which the Participant experiences any five consecutive one-year breaks in service commencing after the distribution. Repayment of a Participant's Account attributable to his elective deferral contributions, if any, shall not be permitted under this Section 5.6. A Participant who desires to make repayment of a distribution under this Section 5.6(b) shall make repayment directly to the Plan Committee. If a Participant repays a distribution under this section, the value of his Account shall be the amount of his Account prior to distribution, unadjusted for any subsequent gains or losses. The amount of the Participant's Account that was forfeited previously shall be restored from one or more of the following sources, at the discretion of the Plan Committee: income or gain to the Plan, forfeitures or Employer contributions.

(c) Forfeiture of Account When Repayment of Distribution Is Not Made. If distribution is made to a Participant and he does not repay such distribution under the terms of Section 5.6(b) of this Plan when the time limit for repayment expires under Section 5.6(b) above, the Participant shall

forfeit the entire portion of his nonvested Account (as adjusted for gains and losses) which was not distributed to him. The Account shall be unadjusted for any increase in vesting for service completed during the repayment period.

#### ARTICLE VI

##### RETIREMENT DATE, DESIGNATION OF BENEFICIARY

Section 6.1 Normal Retirement Date. On the last date of the quarter in which a Participant attains his Normal Retirement Age, for purposes of this Plan he shall be entitled to retire voluntarily. The Employer may continue to employ a Participant after he has attained his Normal Retirement Age with the consent of such Participant. At any time thereafter such Participant may retire. Until retirement, a Participant shall continue to participate in the Plan unless he

elects otherwise. A Participant who has completed 10 years of service with any Employer or combination of Employers may elect to retire for purposes of this Plan on the last day of any quarter during the 5-1/2 years prior to his Normal Retirement Age upon application to and approval by the Plan Committee. In no event may a Participant receive a distribution attributable to Employer contributions prior to termination of the Participant's employment except upon retirement for purposes of this Plan.

Section 6.2 Designation of Beneficiary. A Participant's full vested Account balance shall be payable upon the death of the Participant, to the Participant's surviving spouse or to his designated Beneficiary if there is no surviving spouse or if the spouse consents to such Beneficiary designation in writing. This spousal consent shall acknowledge the effect of such consent and shall be witnessed by a Plan Committee member or a notary public. If there is no surviving spouse or in the case of a spousal election not to receive the Account, a Participant shall designate a Beneficiary to receive his Account in the Trust Fund upon his death on the form prescribed by and delivered to the Plan Committee. The Participant shall have the right to change or revoke a designation at any time by filing a new designation or notice of revocation with the Plan Administrator. No notice to any Beneficiary other than the spouse nor consent by any Beneficiary other than the spouse shall be required to effect any change of designation or revocation. If a Participant fails to designate a Beneficiary before his death, or if no designated Beneficiary survives the Participant, the Plan Committee shall direct the Trustee to pay his Account in the Trust Fund to his surviving spouse, or if none, to his personal representative. If no personal representative has been appointed actual notice of such is given to the Plan Committee within 60 days after the Participant's death, and if his Account does not exceed \$5,000, the Plan Committee may direct the Trustee to pay his Account to such person as may be entitled to it under the laws of the state where such Participant resided at the date of his death. In such case, the Plan Committee may require such proof of right or identity from such person as the Plan Committee may deem necessary.

Section 6.3 Participant or Beneficiary Whose Whereabouts Are Unknown. In the case of any Participant or Beneficiary whose whereabouts are unknown, the Plan Committee shall notify such Participant or Beneficiary at his last known address by certified mail with return receipt requested advising him of his right to a pending distribution. If the Participant or Beneficiary cannot be located in this manner, the Plan Committee shall direct the Trustee to establish a custodial Account for such Participant or Beneficiary for the purpose of holding the Participant's Account until it is claimed by the Participant or Beneficiary or until proof of death satisfactory to the Plan Committee is received by the Plan Committee. If such proof of death is received, the Plan Committee shall direct the Trustee to distribute the Participant's Account in accordance with the provisions of Section 6.2 of this Plan. Any Trustee fees or other administrative expenses attributable to a custodial Account established and maintained under this section shall be charged against such Account.

#### ARTICLE VII

##### DISTRIBUTION FROM TRUST FUND

Section 7.1 When Accounts Become Distributable and Effect of Distribution. If a Participant dies, suffers Total Disability, retires, or terminates his employment for any other reason, the portion of this vested Account attributable to Employer contributions, to Participant contributions, and to any rollover contributions shall be distributable under Section 7.2 of this Plan. When the Participant's Account becomes distributable, such Participant shall cease to have any further interest or participation in the Trust Fund or any subsequent accruals or contributions to the Trust Fund except as provided below: (i) a Participant shall retain the right to receive distribution of his Account as determined at the last prior regular computation or upon the special computation as determined under Section 5.1 of this Plan; and (ii) except as provided in Section 5.1 of this Plan, a Participant who makes contributions during any quarter shall retain the right to receive his share in the Employer's contribution allocated to his Account for such quarter.

Section 7.2 Distribution of Account. (a) Notification of Trustee and Nature of Distribution. As soon as administratively feasible after a Participant's vested Account is distributable, the Plan Committee shall notify the Trustee in writing of the Participant's name and address, the amount of his vested Account which is distributable, the reason for its being distributable and the permissible manner of distribution. A Participant's Account shall be distributed in cash or Qualifying Employer Securities at the election of the Participant, provided that Qualifying Employer Securities shall be distributed to a Participant who makes a written demand for such to the Plan Committee. Cash always may be distributed in lieu of fractional shares.

(b) Distribution Upon Retirement and Upon Total Disability. Except as provided in Section 7.5, if a Participant's Account becomes distributable

upon his Termination of Employment with the Employer because such Participant has attained retirement age or because of his Total Disability, the Trustee shall pay such Participant's Account as soon as administratively feasible following the Participant's Termination of Employment in (i) one lump sum distribution, or (ii) substantially equal annual installments over a period not to exceed five years. If he dies before receiving all of his vested Account, the remaining installments shall be paid to his Beneficiary under this Section 7.2. Any payments received as disability benefits under this Plan are intended to qualify as distribution from an accident and health Plan as described in the Code.

(c) Distribution Upon Death. Except as provided in Section 7.5, if a Participant's Account becomes distributable because of his death, his Beneficiary may elect to receive such Participant's Account, commencing as soon as administratively feasible following the Participant's death in (i) one lump sum distribution, or (ii) substantially equal annual installments over a period not to exceed five years. If the Beneficiary dies before receiving all of the Participant's vested Account, the remaining payments shall be made to the contingent Beneficiary, if any. If the Participant has not designated a Beneficiary, or if he has designated a Beneficiary who dies and the Participant has not designated a contingent Beneficiary, the Participant's vested Account, or the undistributed portion of it, shall be paid in a lump sum under Section 6.2 of this Plan.

(d) Distribution Upon Other Termination of Employment. Except as provided in Section 7.5, if a Participant's Account becomes distributable upon his Termination of Employment for any reason other than attainment of retirement age, disability, or death, the Trustee shall pay

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such Participant's Account to the Participant, in one lump sum distribution as soon as administratively feasible following Participant's Termination of Employment and election to receive a distribution in accordance with Section 7.2(f). The vested Account of a Participant who has satisfied the years of service requirement for early retirement under Section 6.1 of this Plan, but who terminates employment prior to the early retirement age may be distributed, at the option of the Participant, as soon as administratively feasible following the date on which the Participant attains early retirement age, if such date is earlier than the date on which this Account otherwise would be distributable. If the Participant dies prior to receiving all of his vested Account, the remainder shall be distributed to his Beneficiary under this Section 7.2.

(e) Distribution for Rollover Transactions and Eligible Rollover Distributions.

(i) Notwithstanding any other provision of this Section 7.2, a Participant whose Account becomes distributable may request that the Plan Committee direct the Trustee to distribute the entirety of the Participant's vested Account in a single payment to the Participant for the purpose of transferring such Account upon Termination of Employment to another plan in a rollover transaction. A Participant may not rollover the portion of his Account considered contributed by the Participant, which includes all Participant contributions other than elective deferrals. A rollover contribution may include all or any portion of any prior rollover contributions, any earnings, losses, and changes in the fair market value of the portion of a Participant's Account attributable to his own contributions and the portion of a Participant's vested Account attributable to elective deferrals and Employer contributions. The Participant shall make such rollover request in writing and shall provide such information to the Plan Committee as the Plan Committee requests, including the name of the plan to which his interest is to be transferred and the name and address of the sponsor and the Trustee of the new plan, when applicable.

(ii) Notwithstanding any provision of the Plan to the contrary that otherwise would limit a Participant's distribution election under this Article, a Participant may elect, at the time and in the manner prescribed by the Plan Committee, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the Participant in a direct rollover. An eligible rollover distribution is any distribution of all or any portion of the balance to the credit of the Participant, except that an eligible rollover distribution does not include (A) any

distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies) of the distributee and the distributee's designated beneficiary, or for a specified period of ten years or more; (B) any distribution to the extent such distribution is required under Code Section 401(a)(9); and (C) the portion of any distribution that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities). An eligible retirement plan is an individual retirement account described in Code Section 408(a), an individual retirement annuity described in Code Section 408(b), an annuity plan described in Code Section 403(a), or a qualified trust described in Code Section 401(a), that accepts the distributee's

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eligible rollover distribution. However, in the case of an eligible rollover distribution to a surviving spouse, an eligible retirement plan is an individual retirement account or individual retirement annuity. A distributee includes an Employee or former Employee. In addition, the Employee's or former Employee's surviving spouse and the Employee's or former Employee's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Code Section 414(p), are distributees with regard to the interest of the spouse or former spouse. A direct rollover is a payment by the Plan to the eligible retirement plan specified by the distributee. The Committee may establish procedures for the distribution of eligible rollover distributions, including any limitations on the amount eligible for a rollover distribution, to the extent permitted by law.

(f) Distribution of a Participant's Contributions. Notwithstanding any other provision of Section 7.2 of this Plan, but subject to the rules of Section 7.5 of this Plan; if a Participant terminates employment for any reason, he shall receive distribution in one lump sum of his Account in the Trust Fund attributable to Participant contributions and the earnings, losses, and changes in fair market value of such contributions if he makes written demand for them upon the Plan Committee. If a Participant so requests, distribution of his Account attributable to Participant contributions shall be made as soon as administratively feasible following his election. Any amount attributable to Participant contributions not distributed under this Section 7.2(f) shall be distributed along with Employer contributions.

(g) Optional Forms of Benefits for Transferred Assets. Notwithstanding any provision of this Plan to the contrary, to the extent that any optional form of benefit under this Plan permits a distribution prior to the employee's retirement, death, disability, or severance from employment, and prior to Plan termination, the optional form of benefit is not available with respect to benefits attributable to assets (including the post-transfer earnings thereon) and liabilities that are transferred, within the meaning of section 414(1) of the Internal Revenue Code, to this Plan from a money purchase pension plan qualified under section 401(a) of the Internal Revenue Code (other than any portion of those assets and liabilities attributable to voluntary employee contributions).

Section 7.3 Disposition of Forfeitable Account on Termination of Employment. If a Participant's employment is terminated for any reason other than retirement, death, or Total Disability, while any part of his Account in the Trust Fund is forfeitable, then that portion of his Account which is forfeitable shall be forfeited by him on the earlier of the date the Participant receives distribution or the date which he experiences five consecutive one-year breaks in service. If the value of a Participant's vested Account balance is zero upon the Participant's termination of employment, the Participant will be deemed to have received a distribution of the vested Account balance immediately upon such termination of employment. If a Participant who has received a distribution of less than his or her entire Account upon termination of employment is reemployed prior to five consecutive one-year breaks in service, the forfeited Account will be restored from income or gains to the Plan, forfeitures, or Company contributions, at the discretion of the Plan Committee, if the Participant repays the distributed amount to the Plan pursuant to section 5.6(b). Any amount forfeited will remain in the Trust Fund and will be allocated as provided in Section 5.1 of this Plan.

Section 7.4 Assignment of Benefits. (a) General Rules. Except as provided in

this Section 7.4, all amounts payable by the Trustee shall be paid only to the person entitled to them, and all such

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payments shall be paid directly to such person and not to any other person or corporation. Such payments shall not be subject to the claim of any creditor of a Participant, nor shall such payments be taken in execution by attachment or garnishment or by any other legal or equitable proceedings. No person shall have any right to alienate, anticipate, commute, pledge, encumber, or assign any payments or benefits which he may expect to receive contingently or otherwise, under this Plan, except the right to designate a Beneficiary or beneficiaries; provided, that this Section 7.4 shall not affect, restrict, or abridge any right of setoff or lien which the Trust may have by law.

(b) Qualified Domestic Relations Orders.

(i) Section 7.4(a) of this Plan shall not apply with respect to payments in accordance with the requirements of a qualified domestic relations order. A qualified domestic relations order creates or recognizes the existence of an alternate payee's right to, or assigns to an alternate payee the right to, receive all or a portion of the benefits otherwise payable to a Participant under the Plan. A domestic relations order means any judgment, decree, or order (including approval of a property settlement agreement) that relates to the provision of child support, alimony payments, or marital property rights to a spouse, former spouse, child, or other dependent of a Participant, and is made pursuant to a state domestic relations law (including a community property law). To qualify, the domestic relations order must:

- (A) Clearly state the name and last known mailing address of the Participant and the name and mailing address of each alternate payee covered by the order;
- (B) Clearly state the amount or percentage of the Participant's benefits to be paid by the Plan to each alternate payee, or the manner in which the amount or percentage is to be determined;
- (C) Clearly state the number of payments or period to which the order applies;
- (D) Identify each Plan to which the order applies;
- (E) Not require the Plan to provide any type or form of benefits, or any option, not otherwise provided under the Plan;
- (F) Not require the Plan to provide increased benefits (determined on the basis of actuarial value); and
- (G) Not require the payment of benefits to an alternate payee that are required to be paid to another alternate payee under another order previously determined to be a qualified domestic relations order.

(ii) In the case of any distribution before a Participant has separated from service, a qualified domestic relations order shall not fail to meet the requirements of Section 7.4(b)(i)(E) of this Plan solely because such order requires that

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payment of benefits be made to an alternate payee (A) on or after the date the Participant attains the earliest retirement age, (B) as if the Participant had retired on the date on which such payment is to begin under such order, and (C) in any form in which benefits may be paid under the Plan to the Participant (other than in the form of a qualified joint and survivor annuity with respect to the alternate payee and his

subsequent spouse). Payment of benefits before Termination of Employment solely by reason of payments to an alternate payee under a qualified domestic relations order shall not be deemed to be a violation of Code Section 401(a) or (k).

(c) Definitions.

- (i) "Alternate payee" means any spouse, former spouse, child, or other dependent of a Participant who is recognized by a qualified domestic relations order as having a right to receive all, or a portion of, the benefits payable under a Plan with respect to such Participant.
- (ii) "Earliest retirement age" means the earlier of:
  - (A) The date on which the Participant is entitled to a distribution under the Plan; or
  - (B) The later of the date the Participant attains age 50, or the earliest date on which the Participant could begin receiving benefits under the Plan if the Participant had separated from service.

Section 7.5 Other Rules for Distribution of Fund. (a) Vested Accounts and Consent to Distribution. No life annuity may be purchased or distributed under this Plan and no amount (taking into consideration both Employer and Employee contributions) may be distributed to a Participant prior to age 65 unless the amount is distributed in a lump sum of \$5,000 or less or the Participant consents in writing to the distribution. Unless the Participant elects otherwise, distribution must commence not later than 60 days after the end of the Plan Year in which a Participant attains Normal Retirement Age or actually retires, whichever is later. Unless otherwise elected by the Participant, distributions must commence no later than one year after the close of the Plan Year in which occurs the later of the Participant's Termination of Employment because of death, disability or Normal Retirement Age, or the fifth Plan Year following the Participants' separation from service; provided, however, that if securities held in a Participant's Account were purchased with the proceeds of a loan that has not been repaid in full, distributions may be delayed until the end of the Plan Year during which the loan is repaid in full. The Participant's Account must be distributed over a period not longer than five years or, five years plus one additional year (but not more than five additional years) for each \$100,000 of Account balance in excess of \$500,000.

(b) Distribution Rules. Notwithstanding any other provisions of this section, the following distribution rules shall apply (unless a different method of distribution applies under Section 242(b) of the Tax Equity and Fiscal Responsibility Act of 1982):

- (i) Before Death. The entire Account of each Participant
  - (A) will be distributed to him not later than the required beginning date; or
  - (B) shall be distributed

commencing not later than the required beginning date over (1) the life of the Participant (or the lives of the Participant and his designated Beneficiary), or (2) a period not extending beyond the life expectancy of the Participant (or the life expectancy of the Participant and his designated Beneficiary).

- (ii) After Death. If a Participant dies and distribution of his Account has begun in accordance with Section 7.5(i)(B) of this Plan, the remaining portion of his Account will be distributed at least as rapidly as under the method of distribution being used under that Section 7.5(i)(B) as of the date of the Participant's death. If a Participant dies before distribution of the Participant's Account has commenced, the entire interest of the Participant will be distributed within five years after the death of the Participant. The preceding sentence shall not apply if any portion of the Participant's Account is payable to or for the benefit of a designated Beneficiary, if such portion will be distributed over the life of the designated Beneficiary, and if such distributions will begin not later than one year after the date of the Participant's death or such later date as the Secretary of the Treasury may prescribe by regulations. If the designated Beneficiary is the surviving spouse of the



Participant, the date on which the distributions are required to begin shall not be earlier than the date on which the Participant would have attained age 70-1/2, and if the surviving spouse dies before the distribution to such spouse begins, distributions shall be made as if the surviving spouse were the Participant.

- (iii) Life Expectancy. For purposes of this Section 7.5, the life expectancy of an Employee and the Employee's spouse (other than in the case of a life annuity) may be redetermined but not more frequently than annually as determined by the Plan Committee.
- (iv) Required Beginning Date. Required Beginning Date means April 1 of the calendar year following the calendar year in which occurs the later of [1] the date the Participant attains age 70 1/2, or [2] the date the Participant retires from employment with the Company. Notwithstanding the above, in the case of a 5% owner of the Company, Required Beginning Date means April 1 of the calendar year following the calendar year in which the Participant attains age 70 1/2.

Any Participant (who is not a 5% owner of the Company) attaining age 70 1/2 in years after 1995 may elect by April 1 of the calendar year following the year in which the Participant attained age 70 1/2, (or by December 31, 1997 in the case of a Participant attaining age 70 1/2 in 1996) to defer distributions until the calendar year following the calendar year in which the Participant retires. If no such election is made the Participant will begin receiving distributions by the April 1 of the calendar year following the year in which the Participant attained age 70 1/2 (or by December 31, 1997 in the case of a Participant attaining age 70 1/2 in 1996).

Any Participant attaining age 70 1/2 in years prior to 1997 may elect to stop distributions and recommence by the April 1 of the calendar year following the year in which the Participant retires.

- (v) Designated Beneficiary. Designated Beneficiary means any individual designated as a Beneficiary by the Participant.
- (vi) Treatment of Payments to Children. Under regulations prescribed by the Secretary of the Treasury, any amount paid to a child shall be treated as if it had been paid to the surviving spouse if such amount will become payable to the surviving spouse upon such child reaching majority (or such other designated event permitted under regulations).
- (vii) Spouse, Trust for Benefit of Spouse, or Estate As Beneficiary. If distribution prior to a Participant's death has not commenced or has commenced as installment payments from the Trust Fund and if the Participant designates his spouse, a trust for the benefit of his spouse, or his estate as his Beneficiary, the provisions of this subsection shall apply, subject to the limitations in this Section 7.5:

- (A) Spouse As Beneficiary. If a Participant designates his spouse as his Beneficiary, upon the death of the Participant the spouse shall elect (1) to receive the entire Account of the Participant in a lump sum distribution, or (2) to receive payment of the Account in installments as provided in Section 7.5(vii)(E) of this Plan. In the absence of an election by the spouse, the Participant's Account shall be distributed to the spouse in a lump sum within a period of time that satisfies the requirements of this section. Notwithstanding any other provisions of this Plan, the spouse at any time may direct the Trustee to distribute all or any part of the Account to the spouse, or may request that the Trustee segregate the Account from the remainder

of the Trust Fund and invest it in the manner that the spouse specifies. The Trustee, in its sole discretion, shall determine on a nondiscriminatory basis whether to permit such segregation.

- (B) QTIP Trust As Beneficiary. If a Participant designates as his Beneficiary a qualified terminable interest property "QTIP" trust for the benefit of his spouse, upon the death of the Participant the Trustee of the QTIP trust shall elect for the QTIP trust (1) to receive the entire Account of the Participant in a lump sum distribution, or (2) to receive payment of the Account in installments as provided in Section 7.5(vii)(E) of this Plan. In the absence of an election by the QTIP Trustee, the Participant's Account shall be distributed to the QTIP trust in a lump sum within a period of time that satisfies the requirements of this Section 7.5. Notwithstanding any other provisions of this Plan, the spouse at any time may direct the Trustee to distribute all or any part of the Account to the QTIP trust, or may request that the Trustee segregate the Account from the remainder of the Trust Fund and invest it in the manner that the QTIP Trustee

specifies. The Trustee, in its sole discretion, shall determine on a nondiscriminatory basis whether to permit such segregation.

- (C) General Power of Appointment Trust As Beneficiary. If the Participant designates as his Beneficiary a trust over which his spouse has a general power of appointment, upon the death of the Participant the spouse shall elect (1) for such trust to receive the entire Account of the Participant in a lump sum distribution, or (2) for such trust to receive payment of the Account in installments as provided in Section 7.5(vii)(E) of this Plan. In the absence of an election by the spouse, the Participant's Account shall be distributed to such trust in a lump sum within a period of time that satisfies the requirements of this section. Notwithstanding any other provisions of this Plan, the spouse at any time may direct the Trustee to distribute all or any part of the Account to the general power of appointment trust, or may request that the Trustee segregate the Account from the remainder of the Trust Fund and invest it in the manner that the spouse specifies. The Trustee, in its sole discretion, shall determine on a nondiscriminatory basis whether to permit such segregation.
- (D) Estate As Beneficiary. If the Participant designates his estate as his Beneficiary with a specific bequest of his income in respect of decedent to his spouse, upon the death of the Participant the personal representative of the Participant (or the successor of the personal representative) shall elect (1) to receive the entire Account of the Participant in a lump sum distribution, or (2) for the spouse to receive payment of the Account in installments as provided in Section 7.5(vii)(E) of this Plan. In the absence of an election by the personal representative (or his successor), the Participant's Account shall be distributed to the personal representative (or his successor) in a lump sum within a time period that satisfies the requirements of this section. Notwithstanding any other provisions of this Plan, the personal representative (or his successor) at any time may direct the Trustee to distribute all or any part of the Account, or may request that the Trustee segregate the Account from the remainder of the Trust Fund and invest it in the manner that the personal representative (or his successor)

specifies. The Trustee, in its sole discretion, shall determine on a nondiscriminatory basis whether to permit such segregation.

- (E) **Installment Distributions.** If installment payments of the Participant's Account are elected under this section, the person making the election shall specify the amount of the payments and when they shall be made, provided that payment must be made no less frequently than annually. The total installment payments each year shall equal the greater of (1) all income from the Account, or (2) the minimum permissible annual payment under this Section 7.5, and shall be limited as provided under Section 7.2(c) of this Plan. If a spouse elects installment payments, such spouse shall determine who shall receive the amounts, if any, payable under such installment election after such spouse's death.

**Section 7.6 Withdrawals.** (a) **Employer Contributions.** Upon completing the requirements for early retirement provided in Section 6.1 of this Plan, a Participant may elect to retire for purposes of this Plan and may request withdrawal from the Trust Fund of all or any portion of his Account attributable to Employer contributions valued as of the most recent preceding Valuation Date. If a Participant does make such a withdrawal, he shall not be eligible to participate in the Plan again and he shall forfeit all income which otherwise would have been credited to his Account on the last day of the year in which he makes a withdrawal of Employer contributions. His Account shall be credited or charged with any realized or unrealized gains or losses on such date as though no such withdrawal had occurred.

(b) **Voluntary Contributions.** At any time a Participant may request withdrawal of all or any part of his Account attributable to voluntary contributions. A Participant desiring such a withdrawal shall file a written request with the Plan Committee at least two weeks before the date on which withdrawal is to be made. The Participant shall specify the date of withdrawal in his request which date shall be the end of a calendar quarter and that date shall be the withdrawal date for all purposes of this Plan whether or not he actually receives his distribution on that date. The Plan Committee then shall direct the Trustee to distribute the amount requested to the Participant. The Trustee shall distribute the withdrawn contributions as soon as reasonably possible after the withdrawal date. A Participant who makes withdrawal of any portion of his Account under this Section 7.6(b) may not contribute to the Trust Fund under Section 4.1 of this Plan until the first calendar quarter commencing six months after withdrawal is made. Any expenses attributable to any withdrawal under this Section 7.6(b) shall be charged to the Account of the Participant requesting the withdrawal. Vested benefits under the Plan may not be forfeited because a Participant withdraws his voluntary contributions.

(c) **Salary Reductions and Rollover Contributions.** A Participant may withdraw his elective deferral contributions to this Plan (but excluding any earnings, losses, and changes in fair market value of such contributions in the case of a hardship withdrawal), as reflected in his Account attributable to elective deferrals, upon either completing the requirements for early retirement under Section 6.1 of this Plan or upon serious financial hardship, as defined below. A Participant may withdraw any Rollover contributions made under Section 4.7 (including any earnings, losses, and changes in fair market value of such rollover contributions) upon serious financial hardship, as defined below. A Participant desiring such a withdrawal shall make his request in such form and manner as the Plan Committee shall prescribe from time to time. If a Participant makes a withdrawal upon eligibility for early retirement, he shall not be eligible to participate in the Plan again and shall forfeit all income which otherwise would have been credited to his Account on the last day of the year in which he makes withdrawal. A hardship distribution cannot exceed the amount required to meet the immediate financial need and cannot be reasonably available to the Participant from other resources. If the Plan Committee determines in accordance with a uniform and nondiscriminatory policy that serious financial hardship exists, it may direct the Trustee to distribute the amount requested to the Participant. Any expenses attributable to the hardship withdrawal shall be charged to the Account of the Participant requesting the withdrawal. For the purposes of this Section, a serious financial hardship is defined as an immediate and heavy financial need of the Participant when such Participant lacks other available resources. The following are the only financial needs considered immediate and heavy:

- (i) Deductible medical expenses (within the meaning of Code Section 213(d)) of the Participant, the Participant's spouse, children, or dependents;
- (ii) The purchase (excluding mortgage payments) of a principal residence for the Participant;
- (iii) Payment of tuition, and related expenses, for the next twelve months of post-secondary education for the Participant, the Participant's spouse, children, or dependents;
- (iv) The need to prevent the eviction of the Participant from, or a foreclosure on the mortgage of, the Participant's principal residence;
- (v) Funeral expenses of a family member of the Participant; or
- (vi) Any other reason deemed to be an immediate and heavy financial need by the Secretary of Treasury.

In the case of hardship withdrawal of elective deferrals, a distribution will be considered as necessary to satisfy an immediate and heavy financial need of the Participant only if (A) the Participant has obtained all distributions, other than hardship distributions, and all nontaxable loans available under all Plans maintained by the Company; (B) in the case of hardship withdrawal of elective deferrals, all Plans maintained by the Company provide that the Participant's elective deferrals and Participant contributions will be suspended for twelve months after the receipt of the hardship distribution; (C) the distribution is not in excess of the amount necessary to satisfy the immediate and heavy financial need; and (D) all plans maintained by the Company provide that the Participant may not make elective deferrals for the Participant's taxable year immediately following the taxable year of the hardship distribution in excess of the applicable limit under Code Section 402(g) for such taxable year less the amount of such Participant's elective deferrals for the taxable year of the hardship distribution.

Any hardship withdrawal under this section may be made only in a cash lump sum.

Section 7.7 Put Option. If Qualifying Employer Securities distributed, as part of the balance to the credit of the Participant distributed within one taxable year, are not readily tradable on an established market, the Participant receiving such Qualifying Employer Securities has a right to require the Employer to repurchase such Qualifying Employer Securities at fair market value. The put option period shall extend for 60 days after the date of distribution and, if not exercised during that time period shall extend for an additional 60 day period in the following Plan Year (to the extent provided in Treasury regulations). Payments for the Qualifying Employer Securities must be made in substantially equal period payments over a period not exceeding five years and must commence within 30 days after the exercise of the "put option". Adequate security shall be provided and reasonable interest shall be paid on unpaid amounts. Qualifying Employer Securities shall be readily tradable on an established market if they are (i) listed on a national securities exchange registered under Section 6 of the Securities Exchange Act of 1934, (ii) quoted on a system sponsored by a national securities association registered under Section 15A(b) of the Securities Exchange Act, including the National Association of Securities Dealers, Inc. Automated Quotation System ("NASDAQ"), or (iii) traded on any over the counter market by brokers or dealers who make the market using "pink sheets" published by the National Quotation Bureau, Inc.

Section 7.8 Loans to Participants. (a) Uniform Non-Discriminatory Policy. The Committee may establish a uniform and nondiscriminatory policy under which it may direct the Trustee to make a loan to a Participant who makes a written request for such a loan. In no event may all loans from all qualified plans of the Company to an individual Participant exceed the lesser of (i) the greater of \$10,000 or one-half the present value of the Participant's nonforfeitable accrued benefit under all such plans; or (ii) \$50,000 reduced by the excess (if any) of the highest outstanding balance of loans from all such plans during the one year period ending on the day before the date on which such loan was made over the outstanding balance of loans from all such plans on the date on which such loan was made.

(b) Collateral Terms. All loans shall be secured adequately by collateral which collateral may (in the Plan Committee's discretion) include up to 50% of the Participant's vested Account, shall be considered investments of the Plan and Trust, and shall bear a rate of interest considered reasonable on the date on which the loan was made. Except to the extent it is used to acquire any dwelling unit that within a reasonable time is to be used (determined at the time the loan is made) as a principal residence of the Participant, any such loan shall be repaid within or upon the earlier of the date prescribed by the Plan Committee, or five years after the loan is made. To the extent that any

loan is used to acquire the principal residence of the Participant, such loan shall be repaid within a reasonable period of time as determined by the Committee. Substantially level amortization of the loan (with payments at least quarterly) shall be made over the term of the loan. If a Participant does not repay such loan within the time prescribed, then in addition to enforcing payment through any legal remedy, the Plan Committee may instruct the Trustee to deduct the total amount of the loan and any unpaid interest due on it from such Participant's Account, but no foreclosure of the Participant's Account may occur prior to the Account being distributable under this Article. In its discretion the Plan Committee may require the Participant to repay the loan by payroll deduction. Loans may not be made to shareholder-Employees or to owner-Employees. For purposes of this requirement, a shareholder-Employee means an Employee or officer of an electing small business (Subchapter S) corporation who owns (or is considered as owning within the meaning of Code Section 319(a)(1)) on any day during the taxable year of such corporation, more than five percent of the outstanding stock of the corporation. An owner-Employee means an Employee who owns the entire interest of an unincorporated trade or business or is a partner owning more than 10 percent of the capital interest or profits in such partnership.

Section 7.9 Other Restrictions on Withdrawals. Notwithstanding other provisions of this Plan and in particular Article VII of this Plan, the following will apply to all transactions involving Qualifying Employer Securities or Accounts which are the subject of this Plan:

- (i) Six Month Limitation on Further Purchases. An officer or director Participant making a withdrawal under this Plan must cease further purchases of Qualifying Employer Securities in the Plan for six months, or the Qualifying Employer Securities so distributed must be held by that Participant six months prior to disposition; provided that extraordinary distributions of all of the Qualifying Employer Securities held by the Plan and distributions in connection with death, retirement, disability, Termination of Employment, or a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act, or the rules under those acts, are not subject to this requirement; and

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- (ii) Six Month Limitation on Further Participation. An officer or director Participant who ceases participation in the Plan may not participate in the Plan again for at least six months.

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#### ARTICLE VIII

##### FIDUCIARY OBLIGATIONS

Section 8.1 General Fiduciary Duties. A Fiduciary shall discharge his duties under the Plan solely in the interest of the Participants and the beneficiaries and for the exclusive purpose of providing benefits to Participants and to their beneficiaries and defraying reasonable expenses of administering the Plan. All fiduciaries shall act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. Except as authorized by regulations of the Secretary of Labor, no Fiduciary may maintain the indicia of ownership of any assets of the Plan outside the jurisdiction of the district courts of the United States. A Fiduciary shall act in accordance with the documents and instruments governing the Plan to the extent such documents and instruments are consistent with the requirements of law.

Section 8.2 Allocation of Fiduciary Responsibility. A Named Fiduciary may designate persons other than named fiduciaries to carry out Fiduciary responsibilities (other than Trustee responsibilities) under the Plan.

Section 8.3 Liability of Fiduciaries. (a) Extent of Liability. A Fiduciary who breaches any of the responsibilities, obligations, or duties imposed upon him by this Plan or by the requirements of law shall be personally liable only (i) to make good to the Plan any losses resulting from his breach, (ii) to restore to the Plan any profits the Fiduciary has made through the use of Plan assets for his personal Account, and (iii) to pay those penalties prescribed by law arising from his breach. A Fiduciary shall be subject to such other equitable or remedial relief as a court of law may deem appropriate, including removal of the Fiduciary. A Fiduciary also may be removed for a violation of Section 8.8 of this Plan (prohibition against certain persons holding certain positions). No Fiduciary shall be liable with respect to the breach of a Fiduciary duty if such breach was committed before he became a Fiduciary or

after he ceased to be a Fiduciary.

(b) Liability of Fiduciary for Breach by Co-Fiduciary. A Fiduciary shall be liable for a breach of Fiduciary responsibility of another Fiduciary of this Plan, only if he (i) participates knowingly in, or knowingly undertakes to conceal, an act or omission of the other Fiduciary, and knows such act or omission by the other Fiduciary is a breach of the other Fiduciary's duties, (ii) enables another Fiduciary to commit a breach, by his failure to comply with Section 8.1 of this Plan in the administration of the specific responsibilities which give rise to his status as a Fiduciary, or (iii) has knowledge of a breach of another Fiduciary and does not make reasonable efforts under the circumstances to remedy the breach.

(c) Liability for Improper Delegation of Fiduciary Responsibility. A Named Fiduciary who allocates any of his Fiduciary responsibilities to any person or designates any person to carry out any of his Fiduciary responsibilities shall be liable for the act or omission of such person in carrying out the responsibility only to the extent that the Named Fiduciary fails to satisfy his general Fiduciary duties of Section 8.1 of this Plan with respect to the allocation or designation, with respect to the establishment or implementation of the procedure by which he allocates the responsibilities, or in continuing the allocation or designation. Nothing in this Section 8.3(c) shall prevent a Named Fiduciary from being liable if he otherwise would be liable for an act or omission under Section 8.3 of this Plan.

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(d) Fiduciary to whom Responsibilities are Allocated. Any person who has been designated to carry out Fiduciary responsibilities under Section 8.2 of this Plan shall be liable for such responsibilities under this section to the same extent as any Named Fiduciary.

(e) Liability Insurance and Indemnification. Nothing in this Plan shall preclude a Fiduciary from purchasing insurance to cover liability from and for his own account. The Company may purchase insurance to cover potential liability of those persons who serve in a Fiduciary capacity with regard to the Plan or may indemnify a Fiduciary against liability and expenses reasonably incurred by him in connection with any action to which such Fiduciary may be made a party by reason of his being or having been a Fiduciary.

Section 8.4 Prohibited Transactions. No Fiduciary shall cause the Plan to engage in a transaction if the Fiduciary knows or should know that the transaction constitutes a prohibited transaction under law. No disqualified person under law (other than a Fiduciary acting only as such) shall engage in a prohibited transaction as prescribed by law.

Section 8.5 Receipts of Benefits by Fiduciaries. Nothing shall prohibit any Fiduciary from receiving any benefit to which he may be entitled as a Participant or Beneficiary in the Plan, if such benefit is computed and paid on a basis which is consistent with the terms of the Plan applied to all other Participants and beneficiaries. The determination of any matters affecting the payment of benefits to any Fiduciary other than the Plan Committee shall be determined by the Plan Committee. If the Plan Committee is an individual, the determination of any matters affecting the payment of benefits to the Plan Committee shall be made by a temporary Plan Committee who shall be appointed by the Board of Directors for such purpose. If the Plan Committee is a group of individuals, the determination of any matters affecting the payment of benefits to any individual Plan Committee member shall be made by the remaining Plan Committee members without the vote of such individual Plan Committee member. If the remaining Plan Committee members are unable to agree on any matter affecting the payment of such benefits, the Board of Directors shall appoint a temporary Plan Committee to decide the matter.

Section 8.6 Compensation and Expenses of Fiduciaries. (a) General Rules. A Fiduciary shall be entitled to receive any reasonable Compensation for services rendered or for the reimbursement of expenses properly and actually incurred in the performance of his duties under the Plan. However, no Fiduciary who already receives full-time pay from an Employer shall receive Compensation from the Plan, except for reimbursement of expenses properly and actually incurred. All Compensation and expenses shall be paid by the Plan, unless the Company, in its discretion, elects to pay all or any part of such Compensation and expenses.

(b) Compensation of Plan Committee and Plan Administration. A Plan Administrator who is not a full-time Employee of an Employer shall be entitled to such reasonable Compensation as the Plan Committee and Plan Administrator mutually shall determine. A Plan Committee member who is not a full-time Employee of an Employer shall be entitled to such reasonable Compensation as the Company and the Plan Committee mutually shall determine. Any expenses properly and actually incurred by the Plan Committee or the Plan Administrator due to a request by a Participant shall be charged to the Account of the Participant on whose behalf such expenses are incurred.

(c) Compensation of Trustee. A Trustee who is not a full-time Employee of an Employer shall be entitled to such reasonable Compensation for its services as the Plan Committee and the Trustee mutually shall determine.

(d) Compensation of Persons Retained or Employed by Named Fiduciary. The Compensation of all agents, counsel, or other persons retained or employed by a Named Fiduciary shall be determined by the Named Fiduciary employing such person, with the Plan Committee's approval, provided that a person who is a full-time Employee of an Employer shall receive no Compensation from the Plan.

Section 8.7 Service by Fiduciaries and Disqualified Persons. Nothing in this Plan shall prohibit anyone from serving as a Fiduciary in addition to being an officer, Employee, agent, or other representative of a disqualified person as defined in the Code.

Section 8.8 Prohibition Against Certain Persons Holding Certain Positions. No person who has been convicted of a felony shall be permitted to serve as an administrator, Fiduciary, officer, Trustee, custodian, counsel, agent, or Employee of this Plan, or as a consultant to this Plan, unless permitted under law. The Plan Committee shall ascertain to the extent practical that no violation of this section occurs. In any event, no person knowingly shall permit any other person to serve in any capacity which would violate this section.

ARTICLE IX

PLAN ADMINISTRATOR AND PLAN COMMITTEE

Section 9.1 Appointment of Plan Administrator and Plan Committee. The Board of Directors by resolution shall appoint a Plan Administrator and Plan Committee, both of whom shall hold office until resignation, death, or removal by the Board of Directors. If the Board of Directors fails to appoint the Plan Committee or Plan Administrator, or both, the Board of Directors shall be the Plan Committee, the Plan Administrator, or both. Any person may serve in more than one Fiduciary capacity, including service as Plan Administrator and Plan Committee member. Any group of persons appointed by the Board of Directors may serve in the capacity of Plan Committee, Plan Administrator, or both.

Section 9.2 Organization and Operation of Offices of Plan Administrator and Plan Committee. The Plan Administrator and Plan Committee may adopt such procedures as each deems desirable for the conduct of their respective affairs and may appoint or employ a secretary or other agents, any of whom may be, but need not be, an officer or Employee of the Company or an Associated Company. Any agent may be removed at any time by the person appointing or employing him.

Section 9.3 Information To Be Made Available to Plan Committee and Plan Administrator. To enable the Plan Committee and the Plan Administrator to perform all of their respective duties under the Plan, each Employer shall provide the Plan Committee and the Plan Administrator with access to the following information for each Employee: (i) name and address; (ii) social security number; (iii) birthdate; (iv) dates of commencement and Termination of Employment; (v) reason for termination of employment; (vi) hours worked during each year; (vii) annual Compensation; (viii) Employer contributions; and (ix) such other information as the Plan Committee or the Plan Administrator may require. To the extent the information is available in Employer records, an Employer shall provide the Plan Committee and Plan Administrator with access to information relating to each Employee's contributions, benefits received under the Plan, and marital status. If such information is not available from the Employer records, the Plan Committee shall obtain such information from the Participants. The Plan Committee, the Plan Administrator and the Employer may rely on and shall not be liable because of any information which an Employee provides, either directly or indirectly. As soon as possible following any Participant's death, Total Disability, retirement, or other Termination of Employment, his Employer shall certify in writing to the Plan Committee and Plan Administrator such Participant's name and the date and reason for his Termination of Employment.

Section 9.4 Resignation and Removal of Plan Administrator or Plan Committee Member; Appointment of Successors. Any Plan Administrator or Plan Committee member may resign at any time by giving written notice to the Board of Directors, effective as stated in such notice, otherwise upon receipt of such notice. At any time the Plan Administrator or any Plan Committee member may be removed by the Board of Directors without cause. As soon as practical, following the death, resignation, or removal of any Plan Administrator or Plan Committee member, the Board of Directors shall appoint a successor by resolution. Written notice of the appointment of a successor Plan Administrator or successor Plan

Committee member shall be given by the Company to the Trustee. Until receipt by the Trustee of such written notice, the Trustee shall not be charged with knowledge or notice of such change.

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Section 9.5 Duties and Powers of Plan Administrator, Reporting and Disclosure. (a) General Requirements. The Plan Administrator shall be responsible for all applicable reporting and disclosure requirements of law. The Plan Administrator shall prepare, file with the Secretary of Labor, the Secretary of the Treasury, or the Pension Benefit Guaranty Corporation, when applicable, and furnish to Participants and beneficiaries, when applicable, the following: (i) summary plan description; (ii) description of modifications and changes; (iii) annual report; (iv) terminal and supplementary reports; (v) registration statement; and (vi) any other return, report, or document required by law.

(b) Statement of Benefits Accrued and Vested. The Plan Administrator is to furnish any Plan Participant or Beneficiary who so requests in writing, a statement indicating, on the basis of the latest available information, the total benefits accrued and the vested benefits, if any, which have accrued, or the earliest date on which benefits will become vested. The Plan Administrator shall furnish a written statement to any Participant who terminates employment during the Plan Year and is entitled to a deferred vested benefit under the Plan as of the end of the Plan Year, if no retirement benefits have been paid with respect to such Participant during the Plan Year. The statement shall be an individual statement and shall contain the information required in the annual registration statement which the Plan Administrator is required to file with the Secretary of the Treasury. The Plan Administrator shall furnish the individual statement to the Participant before the expiration of the time prescribed for filing the annual registration statement with the Secretary of the Treasury.

(c) Inspection of Documents. The Plan Administrator is to make available for inspection copies of the Plan description and the latest annual report and the agreements under which the Plan was established or is operated. Such documents shall be available for examination by any Participant or Beneficiary in the principal office of the Plan Administrator and in such other places as may be necessary to make available all pertinent information to all Participants. Upon written request by any Participant or Beneficiary, the Plan Administrator is to furnish a copy of the last updated summary Plan description, Plan description, and the latest annual report, any terminal report, and any agreements under which the Plan is established or operated. In addition, the Plan Administrator is to comply with every other requirement imposed on him by law.

(d) Employment of Advisers and Persons To Carry Out Responsibilities. The Plan Administrator may appoint one or more persons to render advice with regard to any responsibility the Plan Administrator has under the Plan and may employ one or more persons (other than a Named Fiduciary) to carry out any of his responsibilities under the Plan.

(e) Notice of Eligibility for Direct Rollover Distribution. The Plan Administrator shall provide a written explanation to the recipient of any eligible rollover distribution that income taxes will not be withheld on the distribution to the extent such distribution is transferred in an eligible rollover distribution to an eligible retirement plan.

Section 9.6 Duties and Powers of Plan Committee - In General. The Plan Committee shall decide, in its sole and absolute discretion, all questions arising in the administration, interpretation, and application of the Plan and Trust, including all questions relating to eligibility, vesting, and distribution, except as may be reserved under this Plan to the Company, its Board of Directors or any Associated Company. The Plan Committee may designate any person (other than the Plan Administrator or Trustee) to carry out any of the Plan Committee's Fiduciary responsibilities under the Plan (other than a Trustee Responsibility) and may appoint one or more persons to render advice

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with regard to any responsibility the Plan Committee has under the Plan. The Plan Committee from time to time shall direct the Trustee concerning the payments to be made out of the Trust Fund pursuant to this Plan. All notices, directions, information, and other communications from the Plan Committee shall be in writing.

Section 9.7 Duties and Powers of Plan Committee - Keeping of Records. The Plan Committee shall keep a record of all the Plan Committee's proceedings and shall keep all such books of Account, records, and other data as may be necessary or advisable in its judgment for the administration of this Plan and



Trust, including records to reflect the affairs of this Plan, to determine the amount of vested and/or forfeitable interests of the respective Participants in the Trust Fund, and to determine the amount of all benefits payable under this Plan. The Plan Committee shall maintain separate Accounts for each Participant as provided under Section 5.1 of this Plan. Subject to the requirements of law, any person dealing with the Plan Committee may rely on, and shall incur no liability in relying on, a certificate or memorandum in writing signed by the Plan Committee as evidence of any action taken or resolution adopted by the Plan Committee.

Section 9.8 Duties and Powers of Plan Committee - Claims Procedure. (a) Filing and Initial Determination of Claim. Any Participant, Beneficiary or his duly authorized representative may file a claim for a Plan benefit to which the claimant believes that he is entitled. Such a claim must be in writing and delivered to the Plan Committee in person or by certified mail, postage prepaid. Within 90 days after receipt of such claim, the Plan Committee shall send to the claimant by certified mail, postage prepaid, notice of the granting or denying, in whole or in part, of such claim unless special circumstances require an extension of time for processing the claim. In no event may the extension exceed 90 days from the end of the initial period. If such extension is necessary the claimant will receive a written notice to this effect prior to the expiration of the initial 90-day period. The Plan Committee shall have full discretion pursuant to the Plan to deny or grant a claim in whole or in part. If notice of the denial of a claim is not furnished in accordance with this Section 9.8(a), the claim shall be deemed denied and the claimant shall be permitted to exercise his right of review pursuant to Section 9.8(c) and (d) of this Plan.

(b) Duty of Plan Committee Upon Denial of Claim. The Plan Committee shall provide to every claimant who is denied a claim for benefits written notice setting forth in a manner calculated to be understood by the claimant: (i) the specific reason or reasons for the denial; (ii) specific reference to pertinent Plan provisions on which the denial is based; (iii) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material is necessary; and (iv) an explanation of the Plan's claim review procedure.

(c) Request for Review of Claim Denial. Within 60 days after receipt by the claimant of written notification of the denial in whole or in part of his claim, the claimant or his duly authorized representative, upon written application to the Plan Committee in person or by certified mail, postage prepaid, may request a review of such denial, may review pertinent documents and may submit issues and comments in writing. Upon its receipt of the request for review, the Plan Committee shall notify the Board of Directors of the request.

(d) Claims Reviewer. Upon its receipt of notice of a request for review, the Board of Directors shall appoint a person other than a Plan Committee member to be the claims reviewer. The Plan Committee shall deliver to the claims reviewer all documents submitted by the claimant and all other documents pertinent to the review. The claims reviewer shall make a prompt decision

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on the review. The decision on review shall be written in a manner calculated to be understood by the claimant, and shall include specific reasons for the decision and specific references to the pertinent Plan provisions on which the decision is based. The decision on review shall be made not later than 60 days after the Plan Committee's receipt of a request for a review, unless special circumstances require an extension of time for processing, in which case a decision shall be rendered not later than 120 days after receipt of a request for review. If such extension is necessary the claimant shall be given written notice of the extension prior to the expiration of the initial 60-day period. If notice of the decision on review is not furnished in accordance with this Section 9.8(d), the claim shall be deemed denied and the claimant shall be permitted to exercise his right to legal remedy pursuant to Section 9.8(e) of this Plan.

(e) Legal Remedy. After exhaustion of the claims procedure as provided under this Plan, nothing shall prevent any person from pursuing any other legal remedy.

Section 9.9 Duties and Powers of Plan Committee - Funding Policy. The policy of each Employer is that this Plan shall be funded with Employer contributions and Participant contributions. The Plan Committee shall determine the Plan's short-run and long-run financial needs and regularly communicate these requirements to the appropriate persons. The Plan Committee will determine whether the Plan has a short-run need for liquidity, (e.g., to pay benefits) or whether the liquidity is a long-run goal and investment growth is a more current need. The Plan Committee shall communicate such information to the Trustee so that investment policy can be coordinated appropriately with Plan needs.

Section 9.10 Duties and Powers of Plan Committee - Bonding of Fiduciaries

and Plan Officials. The Plan Committee shall procure bonds for every Fiduciary of the Plan and every Plan official, if he handles funds of the Plan, in an amount not less than 10% of the amount of funds handled and in no event less than \$1,000, except the Plan Committee shall not be required to procure such bonds if: (i) the person is excepted from the bonding requirement by law; or (ii) the Secretary of Labor exempts the Plan from the bonding requirements. The bonds shall conform to the requirements of law.

Section 9.11 Duties and Powers of Plan Committee - Qualified Domestic Relations Orders. (a) Establish Procedures. Effective as of January 1, 1985, the Plan Committee shall establish reasonable procedures for determining the qualification status of a domestic relations order. Such procedures: (i) shall be in writing; (ii) shall provide to each person specified in a domestic relations order as entitled to payment of Plan benefits notification of such procedures promptly upon receipt by the Plan of the order; and (iii) shall permit an alternate payee to designate a representative for receipt of copies of notices that are sent to the alternate payee.

(b) Determination of Plan Committee. Within a reasonable period of time after receipt of such order, the Plan Committee shall determine whether such order is a qualified domestic relations order and notify the Participant and each alternate payee of such determination. During any period in which the issue of whether a qualified domestic relations order is a qualified domestic relations order is being determined, the Plan Committee shall segregate in a separate Account the amounts which would have been payable to the alternate payee during such period if the order had been determined to be a qualified domestic relations order. If, within 18 months the order is determined not to be a qualified domestic relations order or the issue as to whether such order is a qualified domestic relations order is not resolved, then the Plan Committee shall pay under the terms of the Plan the segregated amounts to the person or persons who would have been entitled to such amounts

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if there had been no order. If a Fiduciary acts in accordance with the fiduciary responsibility provisions of ERISA, then the Plan's obligation to the Participant and each alternate payee shall be discharge to the extent of any payment made.

Section 9.12 Advice to Designated Fiduciaries. Any Fiduciary designated by the Plan Committee or Plan Administrator may appoint with the consent of the Plan Committee or Plan Administrator, respectively, one or more persons to render advice with regard to any responsibility such designated Fiduciary has under the Plan.

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#### ARTICLE X

#### POWERS AND DUTIES OF THE TRUSTEE

Section 10.1 Investment of Trust Fund. (a) Duties of Trustee. The duty of the Trustee is to hold in trust the funds it receives. Subject to the direction of the Plan Committee, the Trustee shall have exclusively authority and discretion to manage and control the assets of the Plan and to manage, invest, and reinvest the Trust Fund and the income from it under this article, without distinction between principal and income, and shall be responsible only for such sums that it actually receives as Trustee. The Trustee shall have no duty to collect any sums from the Plan Committee. The Plan Committee will have the duty to direct the Trustee with respect to the investment of the Trust Fund, subject to the Participants' direction of investment under Section 10.1(d). Notwithstanding any other provision of the Plan, the Trustee shall have no responsibility to select the investment options offered to Participants under Section 10.1(d) nor shall the Trustee have any discretion with respect to the investment of Trust Fund assets.

(b) Powers of Trustee. The Trustee shall have the power to apply the funds it receives to purchase shares of Qualifying Employer Securities, and the Trustee may invest in Qualifying Employer Securities, up to 100% of the value of Plan assets, without regard to the diversification requirement or the prudence requirement to the extent it requires diversification. Purchases of stock may be made by the Trustee in the open market or by private purchase, or, if available, from the Company, or as the Trustee may determine in its sole discretion, provided only that no private purchase or purchase from the Company may be made at a price greater than the current market price for Qualifying Employer Securities on the day of such purchase. The Trustee also may purchase stock from Participants who receive distributions from this Trust, provided that all such purchases shall be made at the current market price on the day of such purchase.

The Trustee also shall have the power to invest and/or reinvest any and all money or property of any description at any time held by it and constituting a part of the Trust Fund, without previous application to, or subsequent ratification of, any court, tribunal, or commission, or any federal or state governmental agency and may invest in real property and all interest in real property, in bonds, notes, debentures, mortgages, commercial paper, preferred stocks, common stocks, or other securities, rights, obligations, or property, real or personal, including shares or certificates of participation issued by regulated investment companies or regulated investment trusts, shares or units of participation in qualified common trust funds, in qualified pooled funds, or in pooled investment funds of an insurance Company qualified to do business in the state. If the Trustee is a bank or similar financial institution supervised by the United States or a state, it may invest Plan assets in its own deposits (savings Accounts and certificates of deposit) if such deposits bear a reasonable rate of interest.

(c) Diversification and Prudence Requirements. Except to the extent the Trustee invests in the Qualifying Employer Securities, the Trustee shall diversify the investments of the Plan to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so. The Trustee shall act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

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(d) Participant's Right to Designate Investments.

(i) General Rules. Each Participant shall have the right to designate the investment of his Account attributable to elective deferral contributions, voluntary contributions, and rollover contributions and transfers made to the Plan, as provided below.

(ii) Investments as of December 31, 1994, to be Invested by Trustee, at the direction of the Plan Committee. All Accounts as of December 31, 1994, or such later date as determined by the Plan Committee, will remain subject to investment by the Trustee as directed by the Plan Committee, including investment of up to 100% of such Accounts in Qualifying Employer Securities.

(iii) Procedure for Designation. Any designation or changes in designation of the investment of a Participant's Account attributable to elective deferrals or voluntary contributions shall be made in writing on forms provided by the Plan Committee and submitted to the Plan Committee or the Trustee, as determined by the Plan Committee, at such times as the Plan Committee shall provide.

(iv) Investment Categories. The Plan Committee shall offer a broad range of investment categories, as selected by the Plan Committee from time to time, which categories shall include fixed income obligations of a secure nature, such as savings accounts, certificates of deposit, and fixed income government and corporate obligations. The investment categories also may include Qualifying Employer Securities, other common stocks, real property, notes, mortgages, commercial paper, preferred stocks, mutual funds, or other securities, rights, obligations, or property, real or personal, including shares or certificates of participation issued by regulated investment trusts and shares or units of participation in qualified common Trust Funds or pooled funds.

(v) Absence of Investment Designation. In the absence of any written designation of investment for the Participant's elective deferrals or voluntary contributions, the Trustee shall invest all funds received on Account of any Participant in such category or categories as the Plan Committee may designate from time to time.

(vi) Irrevocability of Investment Designation. Once a Participant has designated the investment of his Account attributable to elective deferrals or voluntary contributions into Qualifying Employer Securities, such Accounts will thereafter remain invested in Qualifying Employer Securities. A Participant's rollover contributions and transfer contributions, if any, may be invested in Qualifying Employer Securities and such investments may be changed quarterly in the same manner as investments other than Qualifying Employer Securities are changed under the Plan.

(vii) Sole and Exclusive Power of Participants. The right to designate investment categories under this Section 10.1 shall be the sole and exclusive investment power granted to Participants. Neither the Trustee nor the Plan Committee shall be liable for any loss which results from the Participant exercising such control under this Section 10.1.

(viii) Expenses. Any expense incurred by the Trustee or the Plan Committee will be charged directly against the value of the Account of the

Participant on whose behalf such expense is incurred. The Trustee or the Plan Committee may allocate expenses to individual Accounts or commingled Accounts on a nondiscriminatory basis.

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(ix) Special 1997 Participant Election Regarding Qualifying Employer Securities: Effective from January 27, 1997, until August 31, 1997, and only in connection with the public offering of common stock of General Communication, Inc. that occurs during 1997 (the "1997 Public Offering"), each Participant will be permitted to make a one-time election to sell up to 50% of the Qualifying Employer Securities held in such Participant's Account (including but not limited to the Participant's elective deferral account and Company contributions account). The election to sell such Qualifying Employer Securities shall be made pursuant to procedures promulgated by the Committee, which will be applied in a uniform and nondiscriminatory manner. The sale price for such Qualifying Employer Securities will be that price at which such common stock is offered to the general public during the 1997 Public Offering. The proceeds from the sale of such Qualifying Employer Securities thereafter may be invested as directed by the Participant pursuant to the provisions of this Section 10.1, disregarding Section 10.1(ii) to the extent applicable to the Participant's special one-time election. Participant Accounts (including proceeds from the 1997 Public Offering) invested in Qualifying Employer Securities after the 1997 Public Offering will remain subject to the prohibition against later sales provided in Section 10.1(vi).

Section 10.2 Administrative Powers of the Trustee. Subject to the requirements imposed by law, the Trustee shall have all powers necessary or advisable to carry out the provisions of this Plan and Trust and all inherent, implied, and statutory powers not or subsequently provided by law, including specifically the power to do any of the following:

- (i) To cause any securities or other property to be registered and held in its name as Trustee, or in the name of one or more of its nominees, without disclosing the Fiduciary capacity, or to keep the same in unregistered form payable to bearer;
- (ii) To sell, grant options to sell, exchange, pledge, encumber, mortgage, deed in trust, or use any other form of hypothecation, or otherwise dispose of the whole or any part of the Trust Fund on such terms and for such property or cash, in part cash and credit, as it may deem best; to retain, hold, maintain, or continue any securities or investments which it may hold as part of the Trust Fund for such length of time as it may deem advisable; and generally, in all respects, to do all things and exercise each and every right, power, and privilege in connection with and in relation to the Trust Fund as could be done, exercised, or executed by an individual holding and owning such property in absolute and unconditional ownership;
- (iii) To abandon, compromise, contest, and arbitrate claims and demands; to institute, compromise, and defend actions at law (but without obligation to do so); in connection with such powers, to employ counsel as the Trustee shall deem advisable and as approved by the Plan Committee; and to exercise such powers all at the risk and expense of the Trust Fund;
- (iv) To borrow money for this trust upon such terms and conditions as the Trustee shall deem advisable, and to secure the repayment of such by the mortgage or pledge of any assets of the Trust Fund, provided that the Trustee may not borrow money to purchase Qualifying Employer Securities;
- (v) To vote in person or by proxy any shares of stock or rights held in the Trust Fund as directed by the Plan Committee; to participate in and to exchange securities or other

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property in reorganization, liquidation, or dissolutions of any corporation, the securities of which are held in the Trust Fund; and

- (vi) To any amount due on any loan or advance made to the Trust Fund, to charge against and pay from the Trust Fund all taxes of any nature levied, assessed, or imposed upon the Trust Fund, and to pay all reasonable expenses and attorney fees necessarily incurred by the Trustee and approved by the Plan Committee with respect to any of the foregoing matters.

Section 10.3 Advice of Counsel. The Trustee may consult with legal counsel,

who may be counsel for the Company or any Associated Company, or Trustee's own counsel, with respect to the meaning or construction of the Plan and Trust or Trustee's obligations or duties. The Trustee shall be protected from any responsibility with respect to any action taken or omitted by it in good faith pursuant to the advice of such counsel, to the extent permitted by law.

Section 10.4 Records and Accounts of the Trustee. The Trustee shall keep all such records and Accounts which may be necessary in the administration and conduct of this trust. The Trustee's records and Accounts shall be open to inspection by the Company, any Associated Company, the Plan Committee, and the Plan Administrator, at all reasonable times during business hours. All income, profits, recoveries, contributions, forfeitures, and any and all moneys, securities, and properties of any kind at any time received or held by the Trustee shall be held for investment purposes as a commingled Trust Fund. Separate Accounts or records may be maintained for operational and accounting purposes, but no such Account or record shall be considered as segregating any funds or property from any other funds or property contained in the commingled fund, except as otherwise provided. After the close of each year of the trust, the Trustee shall render to the Company and the Plan Committee a statement of assets and liabilities of the Trust Fund for such year.

Section 10.5 Appointment, Resignation, Removal, and Substitution of Trustee. The Board of Directors by resolution shall appoint a Trustee or Trustees, each of which shall hold office until resignation or removal by the Board of Directors. The Trustee may resign at any time upon 30 days' written notice to the Company. The Trustee may be removed at any time by the Company upon written notice to the Trustee with or without cause. Upon resignation or removal of the Trustee, the Company, by action of its Board of Directors, shall appoint a successor Trustee which shall have the same powers and duties as are conferred upon the Trustee appointed under this Plan. The resigning or removed Trustee shall deliver to its successor Trustee all property of the Trust Fund, less a reasonable amount necessary to provide for its Compensation, expenses, and any taxes or advances chargeable or payable out of the Trust Fund. If the Trustee is an individual, death shall be treated as a resignation, effective immediately. If any corporate Trustee at any time shall be merged, or consolidated with, or shall sell or transfer substantially all of its assets and business to another corporation, whether state or federal, or shall be reorganized or reincorporated in any manner, then the resulting or acquiring corporation shall be substituted for such corporate Trustee without the execution of any instrument and without any action upon the part of the Company, any Participant or Beneficiary, or any other person having or claiming to have an interest in the Trust Fund or under the Plan.

Section 10.6 Appointment of Trustee, Acceptance in Writing. The Trustee shall accept its appointment as soon as practical by executing this Plan or by delivering a signed document to the

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Company, a copy of which shall be sent to the Plan Committee by the Trustee. The Board of Directors shall appoint a new Trustee if the Trustee fails to accept its appointment in writing.

Section 10.7 Vote of Qualifying Employer Securities Held in Trust. If the Employer securities of the Company are not publicly traded and if more than 10% of the total Plan assets are securities of the Company, then for voting purposes, each Participant shall be credited with his pro rata portion (including fractional shares) of the Qualifying Employer Securities allocated to his Account which are not encumbered. Each Participant shall be entitled to vote the pro rata portion of Qualifying Employer Securities allocable to him under this Section 10.7. Unreleased Qualifying Employer Securities shall be voted by the Trustee. The Plan Committee shall certify to the Employer the number of shares to be voted by each Participant if an event occurs which requires a vote of such shares. To the extent the Participants do not vote Qualifying Employer Securities under this Section 10.7, the Plan Committee shall vote such Qualifying Employer Securities. If the Employer securities of the Company are publicly traded or if the Employer securities of the Company are not publicly traded but not more than 10% of the total Plan assets are securities of the Company, then the participants shall not be entitled to vote the pro rata portion of Qualifying Employer Securities allocable to them under this Section 10.7 and the Plan Committee shall vote all Qualifying Employer Securities held in the Trust.

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ARTICLE XI

CONTINUANCE, TERMINATION, AND AMENDMENT OF PLAN AND TRUST

Section 11.1 Termination of Plan. The expectation of each Employer is to continue this Plan indefinitely, but the continuance of the Plan is not assumed as a contractual obligation by the Employer and the right is reserved to each Employer, by action of its Board of Directors, to terminate this Plan in whole or in part at any time. The termination of the Plan by an Employer in no event shall have the effect of revesting any part of the Trust Fund in the Employer. The Plan created by execution of this Plan with respect to any Employer shall be terminated automatically in the event of the dissolution, consolidation or merger of such Employer or the sale by such Employer of substantially all of its assets, if the resulting successor corporation or business entity shall fail to adopt the Plan and Trust under Section 11.3 of this Plan. If this Plan is disqualified, the Board of Directors of the Company, in its discretion, may terminate this Plan.

Section 11.2 Termination of Trust. The Trust created by execution of this Plan shall continue in full force and effect for such time as may be necessary to accomplish the purposes for which it is created, unless sooner terminated and discontinued by the Board of Directors. Notice of such termination shall be given to the Trustee by the Plan Committee in the form of an instrument in writing executed by the Company pursuant to the action of its Board of Directors, together with a certified copy of the resolution of the Board of Directors to that effect. In its discretion the Plan Committee may receive a favorable determination letter from the Internal Revenue Service stating that the prior qualified status of the Plan has not been affected by such termination. Such termination shall take effect as of the date of the delivery of the notice of termination and favorable determination letter, if obtained, to the Trustee. The Plan Administrator shall file such terminal reports as are required in Article IX of this Plan.

Section 11.3 Continuance of Plan and Trust by Successor Business. With the approval of the Company, a successor business may continue this Plan and Trust by proper action of the proprietor or partners, if not a corporation, and, if a corporation, by resolution of its Board of Directors, and by executing a proper supplemental agreement to this Plan and Trust with the Trustee. Within 90 days from the Effective Date of such dissolution, consolidation, merger, or sale of assets of an Employer, if such successor business does not adopt and continue this Plan and Trust, this Plan shall be terminated automatically as of the end of such 90-day period.

Section 11.4 Merger, Consolidation, or Transfer of Assets or Liabilities of the Plan. The Board of Directors may merge or consolidate this Plan with any other plan or may transfer the assets or liabilities of the Plan to any other plan if each Participant in the Plan (if the Plan then terminated) would receive a benefit immediately after the merger, consolidation, or transfer which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation, or transfer (if the Plan then had terminated). If any merger, consolidation, or transfer of assets or liabilities occurs, the Plan Administrator shall file such reports as required in Article IX of this Plan.

Section 11.5 Distribution of Trust Fund on Termination of Trust. If the trust is terminated under this Article XI, the Trustee shall determine the value of the Trust Fund and of the respective interest of the Participants and beneficiaries under Article V of this Plan as of the business day next following the date of such termination. The value of the Account of each respective Participant or Beneficiary

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in the Trust Fund shall be vested in its entirety as of the date of the termination of the Plan. The Trustee then shall transfer to each Participant or Beneficiary the net balance of the Participant's Account unless the Plan Committee directs the Trustee to retain the assets and pay them under the terms of this Plan as if no termination had occurred.

Section 11.6 Amendments to Plan and Trust. At any time the Company may amend this Plan and Trust by action of its Board of Directors, provided that no amendment shall cause the Trust Fund to be diverted to purposes other than for the exclusive benefit of the Participants and their beneficiaries. No amendment shall decrease the vested interest of any Participant nor shall any amendment increase the contribution of any Employer or Participant in the Plan. If an amended vesting schedule is adopted, any Participant who has five or more years of service at the later of the date the amendment is adopted or becomes effective and who is disadvantaged by the amendment, may elect to remain under the Plan's prior vesting schedule. Such election must be made within a period established by the Plan Committee, in accordance with applicable regulations, and on a form provided by and delivered to the Plan Committee. No amendment to the Plan (including a change in the actuarial basis for determining optional benefits) shall be effective to the extent that it has the effect of decreasing a Participant's accrued benefit. For purposes of this Section 11.6, a Plan amendment that has the effect of (i) eliminating or reducing an early retirement benefit or a retirement-type subsidy, or (ii) eliminating an optional form of

benefit, with respect to benefits attributable to service before the amendment, will be treated as reducing accrued benefits. No amendment shall discriminate in favor of Employees who are officer, shareholders, or Highly Compensated Employees. Notwithstanding anything in this Plan and Trust to the contrary, the Plan and Trust may be amended at any time to conform to the provisions and requirements of federal and state law with respect to employees' trusts or any amendments to such laws or regulations or rulings issued pursuant to them. No such amendment shall be considered prejudicial to the interest of any Participant or Beneficiary under this Plan.

## ARTICLE XII

### MISCELLANEOUS

Section 12.1 Benefits To Be Provided Solely from the Trust Fund. All benefits payable under this Plan shall be paid or provided solely from the Trust Fund, and no Employer assumes liability or responsibility for payment of benefits.

Section 12.2 Notices from Participants To Be Filed with Plan Committee. Whenever provision is made in the Plan that a Participant may exercise any option or election or designate any Beneficiary, the action of each Participant shall be evidenced by a written notice signed by the Participant and delivered to the Plan Committee in person or by certified mail. If a form is furnished by the Plan Committee for such purpose, a Participant shall give written notice of his exercise of any option or election or of his designation of any Beneficiary on the form provided for such purpose. Written notice shall not be effective until received by the Plan Committee.

Section 12.3 Text To Control. The headings of articles and sections are included solely for convenience of reference. If any conflict between any heading and the text of this Plan and Trust exists, the text shall control.

Section 12.4 Severability. If any provision of this Plan and Trust is illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining provisions. On the contrary, such remaining provisions shall be fully severable, and this Plan and Trust shall be construed and enforced as if such illegal or invalid provisions never had been inserted in this Plan.

Section 12.5 Jurisdiction. This Plan shall be construed and administered under the laws of the State of Alaska when the laws of that jurisdiction are not in conflict with federal substantive law.

Section 12.6 Plan for Exclusive Benefit of Participants; Reversion Prohibited. This Plan and Trust has been established for the exclusive benefit of the Participants and their beneficiaries. Under no circumstances shall any funds contributed to or held by the Trustee at any time revert to or be used by or enjoyed by an Employer except to the extent permitted by Article IV of this Plan.

Section 12.7 Transferability Restriction. A derivative security issued under the Plan, including but not limited to Class B common stock of the Company, is not transferable by the Participant other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act or the rules under those acts. The designation of a beneficiary by an officer, director, or other Participant in the Plan does not constitute a transfer under the Plan.

The Board of Directors  
General Communication, Inc.:

We consent to incorporation by reference in the registration statements (No. 33-60728 and No. 33-60222) on Forms S-8 of General Communication, Inc. of our report dated March 10, 2000, relating to the consolidated balance sheets of General Communication, Inc. and Subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1999, and the related schedule, which report appears in the December 31, 1999, annual report on Form 10-K of General Communication, Inc.

/s/

KPMG LLP

Anchorage, Alaska  
March 10, 2000



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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1999 AND THE CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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