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

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016

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)

State of Alaska	**92-0072737**
(State or other jurisdiction of incorporation or organization)	(I.R.S Employer Identification No.)
2550 Denali Street **Suite 1000** **Anchorage, Alaska**	**99503**
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: **(907) 868-5600**

Not Applicable
Former name, former address and former fiscal year, if changed since last report

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer", "accelerated filer” and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
☐ Yes ☒ No

The number of shares outstanding of the registrant's classes of common stock as of July 29, 2016 was:

33,964,000 shares of Class A common stock; and
3,154,000 shares of Class B common stock.

GENERAL COMMUNICATION, INC.
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2016

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Cautionary Statement Regarding Forward-Looking Statements

You should carefully review the information contained in this Quarterly Report, but should particularly consider any risk factors that we set forth in this Quarterly Report and in other reports or documents that we file from time to time with the Securities and Exchange Commission ("SEC"). In this Quarterly Report, in addition to historical information, we state our future strategies, plans, objectives or goals and our beliefs of future events and of our future operating results, financial position and cash flows. In some cases, you can identify these so-called "forward-looking statements" by words such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "project," or "continue" or the negative of these words and other comparable words. All forward-looking statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance, achievements, plans and objectives to differ materially from any future results, performance, achievements, plans and objectives expressed or implied by these forward-looking statements. In evaluating these statements, you should specifically consider various factors, including those identified under "Risk Factors" in Item 1A of our annual report on Form 10-K for the year ended December 31, 2015. Those factors may cause our actual results to differ materially from any of our forward-looking statements. For these forward looking statements, we claim the protection of the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995.

You should not place undue reliance on any such forward-looking statements. Further, any forward-looking statement, and the related risks, uncertainties and other factors speak only as of the date on which they were originally made and we expressly disclaim any obligation or undertaking to update or revise any forward-looking statement to reflect any change in our expectations with regard to these statements or any other change in events, conditions or circumstances on which any such statement is based. New factors emerge from time to time, and it is not possible for us to predict what factors will arise or when. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Amounts in thousands)

ASSETS		June 30, 2016	December 31, 2015
Current assets:			
Cash and cash equivalents	$	11,329	26,528
Receivables		221,787	208,384
Less allowance for doubtful receivables		2,392	3,630
Net receivables		219,395	204,754
Prepaid expenses		17,406	12,862
Inventories		10,577	11,322
Other current assets		180	3,129
Total current assets		258,887	258,595
Property and equipment		2,453,655	2,384,530
Less accumulated depreciation		1,369,634	1,290,149
Net property and equipment		1,084,021	1,094,381
Goodwill		239,263	239,263
Cable certificates		191,635	191,635
Wireless licenses		92,347	86,347
Other intangible assets, net of amortization		70,091	69,290
Other assets		30,980	27,429
Total other assets		624,316	613,964
Total assets	$	1,967,224	1,966,940

See accompanying condensed notes to interim consolidated financial statements.

(Continued)

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Continued)

(Amounts in thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY		June 30, 2016	December 31, 2015
Current liabilities:			
Current maturities of obligations under long-term debt and capital leases	$	12,356	12,050
Accounts payable		47,542	63,014
Deferred revenue		34,340	34,128
Accrued payroll and payroll related obligations		29,764	31,337
Accrued liabilities		24,354	22,822
Accrued interest (including $2,304 and $5,132 to a related party at June 30, 2016 and December 31, 2015, respectively)		10,834	13,655
Subscriber deposits		1,035	1,242
Total current liabilities		160,225	178,248
Long-term debt, net (including $55,689 and $54,810 to a related party at June 30, 2016 and December 31, 2015, respectively)		1,344,913	1,329,396
Obligations under capital leases, excluding current maturities (including $1,797 and $1,824 due to a related party at June 30, 2016 and December 31, 2015, respectively)		55,065	59,651
Deferred income taxes		111,301	106,145
Long-term deferred revenue		114,705	93,427
Other liabilities (including $21,780 and $32,820 for derivative stock appreciation rights with a related party at June 30, 2016 and December 31, 2015, respectively)		72,695	80,812
Total liabilities		1,858,904	1,847,679
Commitments and contingencies			
Stockholders' equity:			
Common stock (no par):			
Class A. Authorized 100,000 shares; issued 34,991 and 35,593 shares at June 30, 2016 and December 31, 2015, respectively; outstanding 34,965 and 35,567 shares at June 30, 2016 and December 31, 2015, respectively		—	—
Class B. Authorized 10,000 shares; issued and outstanding 3,154 at June 30, 2016 and December 31, 2015; convertible on a share-per-share basis into Class A common stock		2,664	2,664
Less cost of 26 Class A common shares held in treasury at June 30, 2016 and December 31, 2015		(249)	(249)
Paid-in capital		11,746	6,631
Retained earnings		63,395	79,217
Total General Communication, Inc. stockholders' equity		77,556	88,263
Non-controlling interests		30,764	30,998
Total stockholders' equity		108,320	119,261
Total liabilities and stockholders' equity	$	1,967,224	1,966,940

See accompanying condensed notes to interim consolidated financial statements.

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(Amounts in thousands, except per share amounts)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Revenues:				
Non-related party	$ 233,766	247,528	464,864	473,334
Related party	—	—	—	5,283
Total revenues	233,766	247,528	464,864	478,617
Cost of goods sold (exclusive of depreciation and amortization shown separately below):				
Non-related party	78,141	79,256	154,432	153,143
Related party	—	—	—	881
Total cost of goods sold	78,141	79,256	154,432	154,024
Selling, general and administrative expenses:				
Non-related party	88,022	83,047	175,668	166,435
Related party	—	—	—	540
Total selling, general and administrative expenses	88,022	83,047	175,668	166,975
Depreciation and amortization expense	48,072	45,171	95,214	90,406
Software impairment charge	—	851	—	27,268
Operating income	19,531	39,203	39,550	39,944
Other income (expense):				
Interest expense (including amortization of deferred loan fees)	(19,362)	(20,605)	(38,533)	(40,453)
Related party interest expense	(1,846)	(1,795)	(3,677)	(2,932)
Derivative instrument unrealized income (loss) with related party	6,510	(2,950)	11,040	(5,070)
Loss on extinguishment of debt	—	(27,700)	—	(27,700)
Impairment of equity method investment	—	(12,593)	—	(12,593)
Other	587	4,390	1,089	1,243
Other expense, net	(14,111)	(61,253)	(30,081)	(87,505)
Income (loss) before income taxes	5,420	(22,050)	9,469	(47,561)
Income tax (expense) benefit	(2,122)	6,293	(5,189)	13,079
Net income (loss)	3,298	(15,757)	4,280	(34,482)
Net income (loss) attributable to non-controlling interests	(117)	(130)	(234)	414
Net income (loss) attributable to General Communication, Inc.	$ 3,415	(15,627)	4,514	(34,896)
Basic net income (loss) attributable to General Communication, Inc. common stockholders per Class A common share	$ 0.09	(0.41)	0.12	(0.90)
Basic net income (loss) attributable to General Communication, Inc. common stockholders per Class B common share	$ 0.09	(0.41)	0.12	(0.90)
Diluted net loss attributable to General Communication, Inc. common stockholders per Class A common share	$ (0.01)	(0.41)	(0.05)	(0.90)
Diluted net loss attributable to General Communication, Inc. common stockholders per Class B common share	$ (0.01)	(0.41)	(0.05)	(0.90)

See accompanying condensed notes to interim consolidated financial statements.

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2016 AND 2015
(Unaudited)

(Amounts in thousands)	Shares of Class A and B Common Stock	Class A Common Stock	Class B Common Stock	Class A Shares Held in Treasury	Paid-in Capital	Retained Earnings	Non-controlling Interests	Total Stockholders' Equity
Balances at January 1, 2015	41,157	$ 13,617	$ 2,668	$ (249)	$ 26,773	$ 124,547	$ 299,866	$ 467,222
Net income (loss)	—	—	—	—	—	(34,896)	414	(34,482)
Common stock repurchases and retirements	(2,404)	(18,808)	—	—	—	(18,131)	—	(36,939)
Shares issued under stock option plan	38	295	—	—	—	—	—	295
Issuance of restricted stock awards	647	4,895	—	—	(4,895)	—	—	—
Share-based compensation expense	—	—	—	—	5,329	—	—	5,329
Distribution to non-controlling interest	—	—	—	—	—	—	(765)	(765)
Investment by non-controlling interest	—	—	—	—	—	—	3,209	3,209
Non-controlling interest acquisition	—	—	—	—	(35,467)	—	(268,364)	(303,831)
Other	—	1	(1)	—	(230)	—	—	(230)
Balances at June 30, 2015	39,438	$ —	$ 2,667	$ (249)	$ (8,490)	$ 71,520	$ 34,360	$ 99,808
Balances at January 1, 2016	38,747	$ —	$ 2,664	$ (249)	$ 6,631	$ 79,217	$ 30,998	$ 119,261
Net income (loss)	—	—	—	—	—	4,514	(234)	4,280
Common stock repurchases and retirements	(1,200)	(196)	—	—	—	(20,336)	—	(20,532)
Issuance of restricted stock awards	582	—	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	5,115	—	—	5,115
Other	16	196	—	—	—	—	—	196
Balances at June 30, 2016	38,145	$ —	$ 2,664	$ (249)	$ 11,746	$ 63,395	$ 30,764	$ 108,320

See accompanying condensed notes to interim consolidated financial statements.

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2016 AND 2015
(Unaudited)

(Amounts in thousands)

	2016	2015
Cash flows from operating activities:		
Net income (loss)	$ 4,280	(34,482)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	95,214	90,406
Unrealized (income) loss on derivative instrument with related party	(11,040)	5,070
Deferred income tax expense (benefit)	5,156	(13,128)
Share-based compensation expense	5,010	5,414
Loss on extinguishment of debt	—	27,700
Software impairment charge	—	27,268
Impairment of equity method investment	—	12,593
Other noncash income and expense items	6,222	5,722
Change in operating assets and liabilities	(15,652)	12,990
Net cash provided by operating activities	89,190	139,553
Cash flows from investing activities:		
Purchases of property and equipment	(89,802)	(91,964)
Purchases of other assets and intangible assets	(7,109)	(4,704)
Note receivable payment from an equity method investee	3,000	—
Grant proceeds	—	14,007
Note receivable issued to an equity method investee	—	(3,000)
Purchase of business, net of cash received	—	(9,191)
Proceeds from sale of investment	675	7,551
Other	126	(4,663)
Net cash used for investing activities	(93,110)	(91,964)
Cash flows from financing activities:		
Borrowing on Amended Senior Credit Facility	35,000	295,000
Repayment of debt and capital lease obligations	(25,943)	(489,191)
Purchase of treasury stock to be retired	(20,532)	(36,939)
Issuance of 2025 notes	—	445,973
Purchase of non-controlling interests	—	(280,505)
Issuance of Searchlight note payable and derivative stock appreciation rights with related party	—	75,000
Payment of bond call premium	—	(20,244)
Payment of debt issuance costs	—	(13,467)
Distribution to non-controlling interest	—	(4,932)
Other	196	498
Net cash used for financing activities	(11,279)	(28,807)
Net increase (decrease) in cash and cash equivalents	(15,199)	18,782
Cash and cash equivalents at beginning of period	26,528	15,402
Cash and cash equivalents at end of period	$ 11,329	34,184

See accompanying condensed notes to interim consolidated financial statements.

The accompanying unaudited interim consolidated financial statements include the accounts of General Communication, Inc. (“GCI”) and its direct and indirect subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. They should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2015, filed with the SEC on March 3, 2016, as part of our annual report on Form 10-K. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for interim periods are not necessarily indicative of the results that may be expected for an entire year or any other period.

(1) Business and Summary of Significant Accounting Principles

In the following discussion, GCI and its direct and indirect subsidiaries are referred to as “we,” “us” and “our.”

(a) Business

GCI, an Alaska corporation, was incorporated in 1979. We provide a full range of wireless, data, video, voice, and managed services to residential customers, businesses, governmental entities, and educational and medical institutions primarily in Alaska.

(b) Basis of Presentation and Principles of Consolidation

Our consolidated financial statements include the consolidated accounts of GCI and its wholly owned subsidiaries, The Alaska Wireless Network, LLC ("AWN") of which we owned a two-third interest through February 2, 2015 when we purchased the remaining one-third interest, and four variable interest entities (“VIEs”) for which we are the primary beneficiary after providing certain loans and guarantees. These VIEs are Terra GCI Investment Fund, LLC (“TIF”), Terra GCI 2 Investment Fund, LLC (“TIF 2”), Terra GCI 2-USB Investment Fund, LLC (“TIF 2-USB”) and Terra GCI 3 Investment Fund, LLC (“TIF 3”). We also include in our consolidated financial statements non-controlling interests in consolidated subsidiaries for which our ownership is less than 100 percent. All significant intercompany transactions between non-regulated affiliates of our company are eliminated. Intercompany transactions generated between regulated and non-regulated affiliates of our company are not eliminated in consolidation.

(c) Non-controlling Interests

Non-controlling interests represent the equity ownership interests in consolidated subsidiaries not owned by us. Non-controlling interests are adjusted for contributions, distributions, and income and loss attributable to the non-controlling interest partners of the consolidated entities. Income and loss is allocated to the non-controlling interests based on the respective governing documents.

(d) Acquisition

On February 2, 2015, we purchased Alaska Communications Systems Group, Inc.'s (“ACS”) interest in AWN ("AWN NCI Acquisition") and substantially all the assets of ACS and its affiliates related to ACS’s wireless operations (“Acquired ACS Assets”) (collectively the "Wireless Acquisition"). Under the terms of the agreement, we paid ACS $293.2 million, excluding working capital adjustments and agreed to terminate certain agreements related to the use of ACS network assets that were included as part of the original transaction that closed in July 2013. The Acquired ACS Assets include substantially all of ACS’s wireless subscriber assets, including subscriber contracts, and certain of ACS’s CDMA network assets, including fiber strands and associated cell site electronics and microwave facilities and associated electronics. We assumed from ACS post-closing liabilities of ACS and its affiliates under contracts assumed by us and liabilities with respect to the ownership by ACS of its equity interest in AWN to the extent accruing and related to the period after closing. All other liabilities were retained by ACS and its affiliates.

We have accounted for the AWN NCI Acquisition as the acquisition of a non-controlling interest in accordance with Accounting Standards Codification ("ASC") 810, Consolidation, and the Acquired ACS Assets as the acquisition of assets that do not constitute a business in accordance with ASC 805-50, Business Combinations - Related Issues. Total consideration transferred to ACS in the transaction consisted of the cash payment, settlement of working capital, and the fair market value of certain rights to receive future capacity terminated as part of the Wireless Acquisition agreement. The future capacity receivable assets transferred as consideration were adjusted to fair value as of the acquisition date resulting in a gain of $1.2 million recorded in Other Income (Expense) in our Consolidated Statements of Operations for the six months ended June 30, 2015 . We allocated the total consideration transferred to ACS between the AWN NCI Acquisition and the Acquired ACS Assets based on the relative fair values of the assets and non-controlling interest received.

The following table summarizes the allocation of total consideration transferred to ACS between the AWN NCI Acquisition and the Acquired ACS Assets excluding working capital adjustments (amounts in thousands):

Total consideration transfered to ACS	$	304,838
Allocation of consideration between wireless assets and non-controlling interest acquired:		
AWN non-controlling interest	$	303,831
Property and equipment		746
Other intangible assets		261
Total consideration	$	304,838

We have accounted for the AWN NCI Acquisition as an equity transaction, with the carrying amount of the non-controlling interest adjusted to reflect the change in ownership of AWN. The difference between the fair value of consideration paid and the total of the additional deferred taxes incurred as a result of the transaction and the carrying amount of the non-controlling interest has been recognized as additional paid-in capital in our Consolidated Statement of Stockholders' Equity. The impact of the AWN NCI Acquisition is summarized in the following table (amounts in thousands):

Reduction of non-controlling interest	$	268,364
Increase in deferred tax assets		24,028
Additional paid-in capital		11,439
Fair value of consideration paid for acquisition of equity interest	$	303,831

Pursuant to the accounting guidance in ASC 805-50, we determined that the Acquired ACS Assets did not meet the criteria necessary to constitute a business combination and was therefore accounted for as an asset purchase. We recognized the assets acquired in our Consolidated Balance Sheets at their allocated cost on the day of acquisition.

In conjunction with the Wireless Acquisition, we amended certain agreements related to the right to use ACS network assets. We adjusted the related right to use asset to fair value as of the acquisition date resulting in a loss of $3.8 million recorded in Other Income (Expense) in our Consolidated Statements of Operations for the six months ended June 30, 2015 .

<u>Other Acquisitions</u>
During the year ended December 31, 2015, we completed three business acquisitions for total cash consideration of $12.7 million, net of cash received. We accounted for the transactions using the acquisition method of accounting under ASC 805, Business Combinations. Accordingly, the assets received, liabilities assumed and any non-controlling interests were recorded at their estimated fair value as of the acquisition date. We determined the estimated fair values using a combination of the discounted cash flows method and estimates made by management.

(e) <u>Recently Issued Accounting Pronouncements</u>
In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers. This new standard provides guidance for the recognition, measurement and disclosure of revenue resulting from contracts with customers and will

supersede virtually all of the current revenue recognition guidance under GAAP. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date to fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. In March 2016, the FASB issued ASU 2016-08, which amended the guidance in the new standard in order to clarify the principal versus agent assessment and is intended to make the guidance more operable and lead to more consistent application. In April 2016, the FASB issued ASU 2016-10, which clarifies the identification of performance obligations and the licensing implementation guidance in ASU 2014-09. In May 2016, the FASB issued ASU 2016-11, which rescinds SEC paragraphs pursuant to SEC staff announcements regarding ASU 2014-09. These rescissions include changes to topics pertaining to accounting for shipping and handling fees and costs and accounting for consideration given by a vendor to a customer. In May 2016, the FASB issued ASU 2016-12, which provides clarifying guidance in certain narrow areas and adds some practical expedients to ASU 2014-09. The standard permits the use of either the retrospective or cumulative effect transition method. Early adoption is permitted for annual periods beginning after December 15, 2016, however, we do not plan to early adopt this standard. We are currently evaluating the impact of the provisions of this new standard and we expect to have our assessment of the impact on our financial position and results of operations to be completed by December 31, 2016.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The update addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted only for certain portions of the ASU related to financial liabilities. We are currently evaluating the impact of the provisions of this new standard on our financial position and results of operations.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. Lease accounting by the lessor remains largely unchanged by the new standard. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and is required to be adopted using the modified retrospective approach. We are currently evaluating the impact of the provisions of this new standard on our financial position and results of operations, but we expect that adoption will have a material impact on our long-term assets and liabilities.

In March 2016, the FASB issued ASU No. 2016-07, Simplifying the Transition to the Equity Method of Accounting. The update eliminates the requirement to apply the equity method of accounting retrospectively when a reporting entity obtains significant influence over a previously held investment. Instead, the equity method of accounting should be applied prospectively from the date significant influence is obtained and investors should add the cost of acquiring the additional interest to the current basis of their previously held interest. For available-for-sale securities that become eligible for the equity method of accounting, any unrealized gain or loss recorded within accumulated other comprehensive income should be recognized in earnings at the date the investment initially qualifies for the use of the equity method. ASU 2016-07 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted and should be applied prospectively. The adoption of this guidance is not expected to have a material effect on our financial position or results of operations.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which amends ASC 718, Compensation - Stock Compensation. The update includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. ASU 2016-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted with any adjustments reflected as of the beginning of the fiscal year of adoption. We are currently evaluating the impact of the provisions of this new standard on our financial position and results of operations.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The update introduces a new forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments, including trade receivables. The estimate of expected credit losses will require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. This ASU also expands the disclosure requirements to enable users of financial statements to understand the entity's assumptions, models and methods for estimating expected credit losses. ASU 2016-13 is effective for annual and interim reporting periods beginning after December 15, 2019, and is required to be adopted using the modified retrospective approach. Early adoption is permitted for annual and interim reporting periods beginning after December 15, 2018. We are currently evaluating the impact of the provisions of this new standard on our financial position and results of operations.

(f) Recently Adopted Accounting Pronouncements

In April 2015, the FASB issued ASU No. 2015-03, Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires an entity to present debt issuance costs related to a recognized debt liability in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. In August 2015, the FASB issued ASU No. 2015-15, Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements which clarifies that the guidance in ASU 2015-03 does not apply to line-of-credit arrangements. According to ASU 2015-15, line-of-credit arrangements will continue to defer and present debt issuance costs as an asset and subsequently amortize the deferred debt issue costs ratably over the term of the arrangement. We adopted ASU 2015-03 retrospectively as of January 1, 2016, and have reclassified $15.4 million of the December 31, 2015, Deferred Loan and Senior Note Costs, Net of Amortization balance included in Total Other Assets to Long-Term Debt, Net included in Total Liabilities.

In April 2015, the FASB issued ASU 2015-05, Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. The ASU provides guidance in evaluating whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the software license element of the arrangement should be accounted for as an acquisition of a software license. If the arrangement does not contain a software license, it should be accounted for as a service contract. We adopted ASU 2015-05 prospectively as of January 1, 2016. The adoption of this standard did not have a significant effect on our financial position or results of operations.

In June 2015, the FASB issued ASU No. 2015-10, Technical Corrections and Updates. The amendments in this update cover a wide range of topics in the codification and are generally categorized as follows: Amendments Related to Differences between Original Guidance and the Codification; Guidance Clarification and Reference Corrections; Simplification; and, Minor Improvements. We adopted ASU 2015-10 as of January 1, 2016. The adoption of this standard did not have a significant effect on our financial position or results of operations.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory. Under ASU 2015-11, inventory will be measured at the "lower of cost and net realizable value" and options that currently exist for "market value" will be eliminated. The ASU defines net realizable value as the "estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation." No other changes were made to the current guidance on inventory measurement. We adopted ASU 2015-11 prospectively as of April 1, 2016. The adoption of this standard did not have a significant effect on our financial position or results of operations.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. The update requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, including the cumulative effect of the change in provisional amount as if the accounting had been completed at the acquisition date. The adjustments related to previous reporting periods since the acquisition date must be disclosed by income statement line item either on the face of the income statement or in the notes. We adopted ASU 2015-16 as of January 1, 2016. The adoption of this standard did not have a significant effect on our financial position or results of operations.

(g) Regulatory Accounting

We account for the regulated operations of our incumbent local exchange carriers in accordance with the accounting principles for regulated enterprises. This accounting recognizes the economic effects of rate regulation by recording cost and a return on investment as such amounts are recovered through rates authorized by regulatory authorities. Accordingly, plant and equipment is depreciated over lives approved by regulators and certain costs and obligations are deferred based upon approvals received from regulators to permit recovery of such amounts in future years. Our cost studies and depreciation rates for our regulated operations are subject to periodic audits that could result in a change to recorded revenues.

(h) Earnings (Loss) per Common Share

We compute net income (loss) attributable to GCI per share of Class A and Class B common stock using the “two class” method. Therefore, basic net income (loss) per share is computed by dividing net income (loss) applicable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common and dilutive common equivalent shares outstanding during the period. The computation of the dilutive net income (loss) per share of Class A common stock assumes the conversion of Class B common stock to Class A common stock, while the dilutive net income (loss) per share of Class B common stock does not assume the conversion of those shares. The computation of the dilutive net income (loss) per share of Class A common stock also assumes the conversion of our derivative financial instrument that may be settled in cash or shares (as described in Note 4 of this Form 10-Q), shares associated with unexercised stock options and deferred compensation that may be settled in cash or shares if the effect of conversion is dilutive. Additionally, in applying the “two-class” method, undistributed earnings are allocated to both common shares and participating securities. Our restricted stock grants are entitled to dividends and meet the criteria of a participating security.

We allocate undistributed earnings in periods of net income based on the contractual participation rights of Class A common shares, Class B common shares, and participating securities as if the earnings for the period had been distributed. We do not allocate undistributed earnings to participating securities in periods in which we have a net loss. In accordance with our Articles of Incorporation, if and when dividends are declared on our common stock in accordance with Alaska corporate law, equivalent dividends shall be paid with respect to the shares of Class A and Class B common stock, including participating securities. Both classes of common stock have identical dividend rights and would therefore share equally in our net assets in the event of liquidation. As such, we have allocated undistributed earnings on a proportionate basis.

(i) Common Stock

We have a common stock buyback program to repurchase GCI's Class A and Class B common stock. The cost of the repurchased common stock reduces Retained Earnings in our Consolidated Balance Sheets and is treated as constructively retired when purchased.

(j) Accounts Receivable and Allowance for Doubtful Receivables

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful receivables is our best estimate of the amount of probable credit losses in our existing accounts receivable. We base our estimates on the aging of our accounts receivable balances, financial health of specific customers, regional economic data, changes in our collections process, regulatory requirements and our customers' compliance with Universal Service Administrative Company rules. We review our allowance for doubtful receivables methodology at least annually.

Depending upon the type of account receivable our allowance is calculated using a pooled basis with an allowance for all accounts greater than 120 days past due or a specific identification method. When a specific identification method is used, potentially uncollectible accounts due to bankruptcy or other issues are reviewed individually for collectability. Account balances are charged off against the allowance when we believe it is probable the receivable will not be recovered. We do not have any off-balance-sheet credit exposure related to our customers.

Wireless Equipment Installment Plan ("EIP") Receivables
We offer new and existing wireless customers the option to participate in Upgrade Now, a program that provides eligible customers with the ability to purchase certain wireless devices in installments over a period of up to 24 months. Participating customers have the right to trade-in the original equipment for a new device after making the equivalent of 12 monthly installment payments, provided their handset is in good working condition. Upon upgrade, the outstanding balance of the EIP is exchanged for the used handset.

At the time of sale, we impute interest on the receivables associated with Upgrade Now. We record the imputed interest as a reduction to the related accounts receivable. Interest income, which is included in Other Income and (Expense) in our Consolidated Statements of Operations, is recognized over the financed installment term.

We assess the collectability of our EIP receivables based upon a variety of factors, including payment trends and other qualitative factors. The credit profiles of our customers with an Upgrade Now plan are similar to those of our customers with a traditional subsidized plan. Customers with a credit profile which carries a higher risk are required to make a down payment for equipment financed through Upgrade Now.

(k) Derivative Financial Instrument
We account for our derivative instrument in accordance with ASC 815-10, Derivatives and Hedging. ASC 815-10 establishes accounting and reporting standards requiring that derivative instruments, including derivative instruments embedded in other contracts, be recorded on the balance sheet as either an asset or liability measured at its fair value. ASC 815-10 also requires that changes in the fair value of derivative instruments be recognized currently in results of operations unless specific hedge accounting criteria are met. We have not entered into any hedging activities to date. We recognize all derivative instruments as either assets or liabilities in our Consolidated Balance Sheets at their respective fair values. Our stock appreciation rights derivative instrument (as described in Note 4 of this Form 10-Q) is recorded as a liability at fair value, and is revalued at each reporting date, with changes in the fair value of the instrument included in our Consolidated Statements of Operations as Derivative Instrument Unrealized Income (Loss) with Related Party.

(l) Guarantees
We offer a device trade-in program, "Upgrade Now", which provides eligible customers a specified-price trade-in right to upgrade their device. Participating customers must have purchased a financed device using an equipment installment plan from us and have a qualifying monthly wireless service plan. Upon qualifying for an Upgrade Now device trade-in, the customer's remaining EIP balance is settled provided they trade in their eligible used device in good working condition and purchase a new device from us on a new EIP.

For customers who enroll in Upgrade Now, we defer the portion of equipment sales revenue which represents the estimated value of the trade-in right guarantee. The estimated value of the guarantees are based on various economic and customer behavioral assumptions, including the customer's estimated remaining EIP balance at trade-in, the expected fair value of the used handset at trade-in and the probability and timing of a trade-in.

We assess facts and circumstances at each reporting date to determine if we need to adjust the guarantee liability. The recognition of subsequent adjustments to the guarantee liability as a result of these assessments are recorded as adjustments to revenue. When customers upgrade their devices, the difference between the trade-in credit to the customer and the fair value of the returned devices is recorded against the guarantee liabilities. Guarantee liabilities are included in Accrued Liabilities in our Consolidated Balance Sheets.

(m) Revenue Recognition

We recorded high cost support revenue under the Universal Service Fund ("USF") program of $16.3 million and $16.9 million for the three months ended June 30, 2016 and 2015, respectively, and $32.5 million and $34.1 million for the six months ended June 30, 2016 and 2015, respectively. At June 30, 2016, we have $45.2 million in high cost support accounts receivable.

(n) Use of Estimates

The preparation of financial statements in conformity with GAAP requires us 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. Significant items subject to estimates and assumptions include the allowance for doubtful receivables, unbilled revenues, accrual of the USF high cost program support, share-based compensation, inventory at lower of cost and net realizable value, reserve for future customer credits, liability for incurred but not reported medical insurance claims, valuation allowances for deferred income tax assets, depreciable and amortizable lives of assets, the carrying value of long-lived assets including goodwill, cable certificates, wireless licenses,and broadcast licenses, the fair value of equity method investments evaluated for impairment, our effective tax rate, imputed interest rate, purchase price allocations, deferred lease expense, asset retirement obligations, the accrual of cost of goods sold (exclusive of depreciation and amortization expense), depreciation, the derivative stock appreciation rights liability, guarantees, and the accrual of contingencies and litigation. Actual results could differ from those estimates.

The accounting estimates related to revenues from the USF high cost program are dependent on various inputs including our estimate of the Statewide Support Cap, our assessment of the impact of new FCC regulations, and the potential outcome of FCC proceedings. These inputs are subjective and based on our judgment regarding the outcome of certain variables and are subject to upward or downward adjustment in subsequent periods.

(o) Classification of Taxes Collected from Customers

We report sales, use, excise, and value added taxes assessed by a governmental authority that is directly imposed on a revenue-producing transaction between us and a customer on a net basis in our Consolidated Statements of Operations. The following are certain surcharges reported on a gross basis in our Consolidated Statements of Operations (amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Surcharges reported gross	$ 991	1,384	2,022	2,533

(p) Reclassifications

Reclassifications have been made to the 2015 financial statements to make them comparable with classifications used in the current year.

(2) Consolidated Statements of Cash Flows Supplemental Disclosures

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

Six Months Ended June 30,	2016	2015
(Increase) decrease in accounts receivable, net	$ (15,513)	22,410
Increase in prepaid expenses	(4,582)	(2,069)
Decrease in inventories	745	4,772
(Increase) decrease in other current assets	(51)	12
Increase in other assets	(3,925)	(7,035)
Decrease in accounts payable	(3,541)	(7,997)
Increase (decrease) in deferred revenues	212	(2,687)
Decrease in accrued payroll and payroll related obligations	(1,733)	(5,155)
Increase in accrued liabilities	1,594	4,604
Increase (decrease) in accrued interest	(2,821)	7,438
Decrease in subscriber deposits	(207)	(197)
Increase (decrease) in long-term deferred revenue	12,808	(980)
Increase (decrease) in components of other long-term liabilities	1,362	(126)
Total change in operating assets and liabilities	$ (15,652)	12,990

The following item is for the six months ended June 30, 2016 and 2015 (amounts in thousands):

Net cash paid or received:	2016	2015
Interest paid including capitalized interest	$ 44,068	35,056

The following items are non-cash investing and financing activities for the six months ended June 30, 2016 and 2015 (amounts in thousands):

	2016	2015
Non-cash additions for purchases of property and equipment	$ 15,878	15,996
Asset retirement obligation additions to property and equipment	$ 769	1,735
Non-cash consideration for Wireless Acquisition	$ —	23,326

(3) Intangible Assets and Goodwill

Amortization expense for amortizable intangible assets was as follows (amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Amortization expense	$ 3,276	2,555	6,036	5,218

Amortization expense for amortizable intangible assets for each of the five succeeding fiscal years is estimated to be (amounts in thousands):

Years Ending December 31,	
2016	$ 11,933
2017	$ 9,888
2018	$ 7,935
2019	$ 5,661
2020	$ 4,379

(4) Fair Value Measurements and Derivative Instrument

Recurring Fair Value Measurements
Assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 and December 31, 2015 are as follows (amounts in thousands):

June 30, 2016		Level 1 [1]	Level 2 [2]	Level 3 [3]	Total
Assets:					
Deferred compensation plan assets (mutual funds)	$	1,486	—	—	1,486
Liabilities:					
Derivative stock appreciation rights	$	—	—	21,780	21,780

December 31, 2015		Level 1 [1]	Level 2 [2]	Level 3 [3]	Total
Assets:					
Deferred compensation plan assets (mutual funds)	$	1,728	—	—	1,728
Liabilities:					
Derivative stock appreciation rights	$	—	—	32,820	32,820

[1] Quoted prices in active markets for identical assets or liabilities
[2] Observable inputs other than quoted prices in active markets for identical assets and liabilities
[3] Inputs that are generally unobservable and not corroborated by market data

The fair value of our mutual funds is determined using quoted market prices in active markets utilizing market observable inputs.

The fair value of our derivative stock appreciation rights was determined using a lattice-based valuation model (see the section "Derivative Financial Instruments" below for more information).

Current and Long-Term Debt
The carrying amounts and approximate fair values of our current and long-term debt, excluding capital leases, at June 30, 2016 and December 31, 2015 are as follows (amounts in thousands):

	June 30, 2016			December 31, 2015	
	Carrying Amount		Fair Value	Carrying Amount	Fair Value
Current and long-term debt	$	1,348,254	1,400,504	1,332,739	1,390,743

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

- The fair values of the 6.75% Senior Notes due 2021 and the 6.875% Senior Notes due 2025 both issued by GCI, Inc., our wholly owned subsidiary, are based upon quoted market prices for the same or similar issues (Level 2).
- The fair value of our Searchlight Note Payable is based on the current rates offered to us for similar remaining maturities plus an additional premium to reflect its subordination to our 2021 and 2025 Notes (Level 3).
- The fair value of our Amended Senior Credit Facility and Wells Fargo note payable are estimated to approximate their carrying value because the instruments are subject to variable interest rates (Level 2).

Derivative Financial Instrument
In connection with the $75.0 million unsecured promissory note issued to Searchlight on February 2, 2015, we entered into a stock appreciation rights agreement pursuant to which we issued to Searchlight three million stock appreciation rights. Each stock appreciation right entitles Searchlight to receive, upon exercise, an

amount payable at our election in either cash or shares of GCI's Class A common stock equal in value to the excess of the fair market value of a share of GCI Class A common stock on the date of exercise over the price of $13.00. The instrument is exercisable on the fourth anniversary of the grant date and will expire eight years from the date of grant. We have determined that the stock appreciation rights are required to be separately accounted for as a derivative instrument and subject to fair value liability accounting under ASC 815-10.

We use a lattice based valuation model to value the stock appreciation rights liability at each reporting date. The model incorporates transaction details such as our stock price, instrument term and settlement provisions, as well as highly complex and subjective assumptions about volatility, risk-free interest rates, issuer behavior and holder behavior. The lattice model uses highly subjective assumptions and the use of other reasonable assumptions could provide different results. The following table shows our significant assumptions and inputs used in the lattice-based valuation model to value the stock appreciation right liability at June 30, 2016:

	June 30, 2016
Contractual term (in years)	2.6 - 6.6
Volatility	40 %
Risk-free interest rate	1.2 %

We revalue our derivative liability at each reporting period and recognize gains or losses in our Consolidated Statements of Operations attributable to the change in the fair value of the instruments. The stock appreciation rights liability is included within Other Liabilities in our Consolidated Balance Sheets and are classified as Level 3 within the fair value hierarchy.

The following table summarizes the changes in fair value of our financial instrument measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the six months ended June 30, 2016 and 2015:

Fair Value Measurement Using Level 3 Inputs

	Derivative Stock Appreciation Rights
Balances at January 1, 2015	$ —
Issuance	21,660
Fair value adjustment at end of period, included in Other Income (Expense)	5,070
Balances at June 30, 2015	26,730
Balances at January 1, 2016	32,820
Fair value adjustment at end of period, included in Other Income (Expense)	(11,040)
Balances at June 30, 2016	$ 21,780

(5) Stockholders' Equity

Common Stock

GCI's Board of Directors has authorized a common stock buyback program for the repurchase of GCI's Class A and Class B common stock in order to reduce the outstanding shares of Class A and Class B common stock. We are authorized to increase our repurchase limit $5.0 million per quarter indefinitely and to use stock option exercise proceeds to repurchase additional shares. If stock repurchases are less than the total approved quarterly amount the difference may be carried forward and used to repurchase additional shares in future quarters.

During the three months ended June 30, 2016 and 2015, we repurchased 0.5 million and 1.2 million shares, respectively, of our Class A common stock under the stock buyback program at a cost of $8.3 million and $19.7 million, respectively. During the six months ended June 30, 2016 and 2015, we repurchased 1.1 million and 2.3

million shares of our Class A common stock under the stock buyback program at a cost of $19.5 million and $35.9 million, respectively. Under this program we are currently authorized to make up to $86.0 million of repurchases as of June 30, 2016.

We expect to continue the repurchases for an indefinite period dependent on leverage, liquidity, company performance, and market conditions and subject to continued oversight by GCI's Board of Directors.

Share-based Compensation
Our Amended and Restated 1986 Stock Option Plan ("Stock Option Plan"), provides for the grant of options and restricted stock awards (collectively "award") for a maximum of 15.7 million 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. We have issued only restricted stock awards since 2010. If an award expires or terminates, the shares subject to the award will be available for further grants of awards under the Stock Option Plan. The Compensation Committee of GCI's Board of Directors administers the Stock Option Plan. Substantially all restricted stock awards granted vest over periods of up to three years. The requisite service period of our awards is generally the same as the vesting period. New shares are issued when restricted stock awards are granted. We have 1.6 million shares available for grant under the Stock Option Plan at June 30, 2016.

A summary of nonvested restricted stock award activity under the Stock Option Plan as of June 30, 2016 and changes during the period then ended is presented below:

	Shares (in thousands)	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2015	1,495	$ 11.08
Granted	580	$ 17.68
Vested	(272)	$ 10.39
Forfeited	(2)	$ 15.39
Nonvested at June 30, 2016	1,801	$ 13.30

The weighted average grant date fair value of awards granted during the six months ended June 30, 2016 and 2015, were $17.68 and $14.70, respectively. The total fair value of awards vesting during the six months ended June 30, 2016 and 2015 were $4.3 million and $4.9 million, respectively. We have recorded share-based compensation expense of $5.0 million and $5.3 million for the six months ended June 30, 2016 and 2015, respectively. Share-based compensation expense is classified as Selling, General and Administrative Expense in our Consolidated Statements of Operations. Unrecognized share-based compensation expense was $13.8 million as of June 30, 2016. We expect to recognize share-based compensation expense over a weighted average period of 1.6 years for restricted stock awards.

(6) Earnings (Loss) per Common Share

Earnings (loss) per common share ("EPS") and common shares used to calculate basic and diluted EPS consist of the following (amounts in thousands, except per share amounts):

	Three Months Ended June 30,			
	2016		2015	
	Class A	Class B	Class A	Class B
Basic net income (loss) per share:				
Numerator:				
Net income (loss) available to common stockholders	$ 3,134	281	$ (14,330)	(1,297)
Less: Undistributed net income allocable to participating securities	(167)	—	—	—
Undistributed net income (loss) allocable to common stockholders	2,967	281	(14,330)	(1,297)
Denominator:				
Weighted average common shares outstanding	33,308	3,155	34,887	3,159
Basic net income (loss) attributable to GCI common stockholders per common share	$ 0.09	0.09	$ (0.41)	(0.41)

	Three Months Ended June 30,			
	2016		2015	
	Class A	Class B	Class A	Class B
Diluted net loss per share:				
Numerator:				
Undistributed net income (loss) allocable to common stockholders for basic computation	$ 2,967	281	$ (14,330)	(1,297)
Reallocation of undistributed earnings (loss) as a result of conversion of Class B to Class A shares	281	—	(1,297)	—
Reallocation of undistributed earnings as a result of conversion of dilutive securities	189	(319)	—	—
Effect of derivative instruments that may be settled in cash or shares	(3,834)	—	—	—
Effect of share based compensation that may be settled in cash or shares	(39)	—	—	—
Undistributed net income (loss) adjusted for allocation of undistributed earnings (loss) and effect of contracts that may be settled in cash or shares	$ (436)	(38)	$ (15,627)	(1,297)
Denominator:				
Number of shares used in basic computation	33,308	3,155	34,887	3,159
Conversion of Class B to Class A common shares outstanding	3,155	—	3,159	—
Effect of derivative instruments that may be settled in cash or shares	611	—	—	—
Effect of share based compensation that may be settled in cash or shares	26	—	—	—
Number of shares used in per share computation	37,100	3,155	38,046	3,159
Diluted net loss attributable to GCI common stockholders per common share	$ (0.01)	(0.01)	$ (0.41)	(0.41)

	Six Months Ended June 30,			
	2016		2015	
	Class A	Class B	Class A	Class B
Basic net income (loss) per share:				
Numerator:				
Net income (loss) available to common stockholders	$ 4,144	370	$ (32,048)	(2,848)
Less: Undistributed net income allocable to participating securities	(210)	—	—	—
Undistributed net income (loss) allocable to common stockholders	3,934	370	(32,048)	(2,848)
Denominator:				
Weighted average common shares outstanding	33,502	3,155	35,548	3,159
Basic net income (loss) attributable to GCI common stockholders per common share	$ 0.12	0.12	$ (0.90)	(0.90)

	Six Months Ended June 30,			
	2016		2015	
	Class A	Class B	Class A	Class B
Diluted net loss per share:				
Numerator:				
Undistributed net income (loss) allocable to common stockholders for basic computation	$ 3,934	370	$ (32,048)	(2,848)
Reallocation of undistributed earnings (loss) as a result of conversion of Class B to Class A shares	370	—	(2,848)	—
Reallocation of undistributed earnings as a result of conversion of dilutive securities	304	(536)	—	—
Effect of derivative instruments that may be settled in cash or shares	(6,501)	—	—	—
Effect of share based compensation that may be settled in cash or shares	(62)	—	—	—
Undistributed net income (loss) adjusted for allocation of undistributed earnings (loss) and effect of contracts that may be settled in cash or shares	$ (1,955)	(166)	$ (34,896)	(2,848)
Denominator:				
Number of shares used in basic computation	33,502	3,155	35,548	3,159
Conversion of Class B to Class A common shares outstanding	3,155	—	3,159	—
Effect of derivative instruments that may be settled in cash or shares	744	—	—	—
Effect of share based compensation that may be settled in cash or shares	26	—	—	—
Number of shares used in per share computation	37,427	3,155	38,707	3,159
Diluted net loss attributable to GCI common stockholders per common share	$ (0.05)	(0.05)	$ (0.90)	(0.90)

Weighted average shares associated with outstanding securities for the three and six months ended June 30, 2016 and 2015, which have been excluded from the computations of diluted EPS, because the effect of including these securities would have been anti-dilutive, consist of the following (shares, in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Shares associated with anti-dilutive unexercised stock options	3	120	5	119
Derivative instruments that may be settled in cash or shares, the effect of which is anti-dilutive	—	612	—	486
Share-based compensation that may be settled in cash or shares, the effect of which is anti-dilutive	—	26	—	26
Total excluded	3	758	5	631

(7) Segments
Our reportable segments are business units that offer different products and are each managed separately. A description of our reportable segments follows:

Wireless - We offer wholesale wireless services.

Wireline - We provide a full range of wireless, data, video, voice, and managed services to residential customers, businesses, governmental entities, and educational and medical institutions primarily in Alaska.

We evaluate performance and allocate resources based on Adjusted EBITDA, which is defined as earnings plus cash received in excess of revenue recognized for long-term fixed roaming arrangements and imputed interest on financed devices before:

- Net interest expense,
- Income taxes,
- Depreciation and amortization expense,
- Loss on extinguishment of debt,
- Software impairment charge,
- Derivative instrument unrealized income (loss),
- Share-based compensation expense,
- Accretion expense,
- Loss attributable to non-controlling interest resulting from NMTC transactions,
- Gains and impairment losses on equity and cost method investments, and
- Other non-cash adjustments.

Management believes that this measure is useful to investors and other users of our financial information in understanding and evaluating operating performance as an analytical indicator of income generated to service debt and fund capital expenditures. In addition, multiples of current or projected Adjusted EBITDA are used to estimate current or prospective enterprise value.

The accounting policies of the reportable segments are the same as those described in Note 1, “Business and Summary of Significant Accounting Policies” of this Form 10-Q. We have no intersegment sales.

We earn all revenues through sales of services and products within the United States. All of our long-lived assets are located within the United States of America, except approximately 82% of our undersea fiber optic cable systems which transit international waters and all of our satellite transponders.

Summarized financial information for our reportable segments for the three and six months ended June 30, 2016 and 2015 follows (amounts in thousands):

	Three Months Ended			Six Months Ended		
	Wireless	Wireline	Total Reportable Segments	Wireless	Wireline	Total Reportable Segments
June 30, 2016						
Revenues	$ 53,875	179,891	233,766	$ 105,337	359,527	464,864
Adjusted EBITDA	$ 40,334	38,706	79,040	$ 80,398	76,748	157,146
June 30, 2015						
Revenues	$ 67,940	179,588	247,528	$ 127,144	351,473	478,617
Adjusted EBITDA	$ 45,727	42,274	88,001	$ 83,114	80,190	163,304

A reconciliation of reportable segment Adjusted EBITDA to consolidated income (loss) before income taxes follows (amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Reportable segment Adjusted EBITDA	$ 79,040	88,001	157,146	163,304
Less depreciation and amortization expense	(48,072)	(45,171)	(95,214)	(90,406)
Less cash received in excess of revenue recognized for long-term roaming arrangements	(7,500)	—	(15,000)	—
Less share-based compensation expense	(2,683)	(2,613)	(5,010)	(5,414)
Less accretion expense	(442)	(351)	(834)	(801)
Less software impairment charge	—	(851)	—	(27,268)
Other	(812)	188	(1,538)	529
Consolidated operating income	19,531	39,203	39,550	39,944
Less other expense, net	(14,111)	(61,253)	(30,081)	(87,505)
Consolidated income (loss) before income taxes	$ 5,420	(22,050)	9,469	(47,561)

We entered into new long-term roaming and backhaul agreements with our largest roaming partners. The revenue recognized for these contracts was determined by calculating the cumulative minimum cash payments and recognizing the amount evenly over the life of the contracts. In the early years of the contracts the cash received is in excess of the revenue recognized; in the later years the cash received will be less than the revenue recognized. EBITDA is adjusted for the difference between the cash received and the revenue recognized for such arrangements to ensure Adjusted EBITDA is useful to investors and other users of our financial information in understanding and evaluating operating performance.

(8) Related Party Transactions

We entered into a long-term capital lease agreement in 1991 with the wife of GCI's President and CEO for property occupied by us. The leased asset was capitalized in 1991 at the owner's cost of $0.9 million and the related obligation was recorded. The lease agreement was amended in April 2008 and our existing capital lease asset and liability increased by $1.3 million to record the extension of this capital lease. The amended lease terminates on September 30, 2026.

In January 2001 we entered into an aircraft operating lease agreement with a company owned by GCI's President and CEO. The lease was amended several times, most recently in May 2011. The lease term of the aircraft may be terminated at any time by us upon 12 months written notice. The monthly lease rate of the aircraft is $132,000. In 2001, we paid a deposit of $1.5 million in connection with the lease. The deposit will be repaid to us no later than six months after the agreement terminates.

As disclosed in Note 4 of this Form 10-Q, we have an unsecured promissory note and stock appreciation rights with Searchlight. Searchlight received the right to nominate one person for appointment or election as a member of our Board of Directors pursuant to a Securityholder Agreement dated as of December 4, 2014. Searchlight became a related party on February 2, 2015 when we closed the Wireless Acquisition. Searchlight's nominee was appointed as a member of our Board of Directors on March 4, 2015.

ACS was a related party for financial statement reporting purposes through the date of the Wireless Acquisition on February 2, 2015. Included in our related party disclosures were ACS' provision to us of local service lines and network capacity in locations where we do not have our own facilities, our provision to ACS of wholesale wireless services for their use of our network to sell services to their respective retail customers, and our receipt of ACS' high cost support from USF for its wireless customers. For the period January 1, 2015 to February 2, 2015, we paid ACS $6.2 million and received $8.1 million in payments from ACS. We also have long-term capacity exchange agreements with ACS for which no money is exchanged.

(9) Variable Interest Entities

New Markets Tax Credit Entities

We have entered into several arrangements under the NMTC program with US Bancorp to help fund a project that extended terrestrial broadband service for the first time to rural Northwestern Alaska communities via a high capacity hybrid fiber optic and microwave network ("TERRA-NW"). The NMTC program was provided for in the Community Renewal Tax Relief Act of 2000 (the "Act") to induce capital investment in qualified lower income communities. The Act permits taxpayers to claim credits against their federal income taxes for up to 39% of qualified investments in the equity of community development entities ("CDEs"). CDEs are privately managed investment institutions that are certified to make qualified low-income community investments.

On August 30, 2011, we entered into the first arrangement ("NMTC #1"). In connection with the NMTC #1 transaction we loaned $58.3 million to TIF, a special purpose entity created to effect the financing arrangement, at 1% interest due August 30, 2041. Simultaneously, US Bancorp invested $22.4 million in TIF. TIF then contributed US Bancorp's contribution and the loan proceeds to certain CDEs. The CDEs, in turn, loaned the $76.8 million in funds less payment of placement fees, at interest rates varying from 1% to 3.96%, to Unicom, as partial financing for TERRA-NW.

On October 3, 2012, we entered into the second arrangement ("NMTC #2"). In connection with the NMTC #2 transaction we loaned $37.7 million to TIF 2 and TIF 2-USB, special purpose entities created to effect the financing arrangement, at 1% interest due October 2, 2042. Simultaneously, US Bancorp invested $17.5 million in TIF 2 and TIF 2-USB. TIF 2 and TIF 2-USB then contributed US Bancorp's contributions and the loan proceeds to certain CDEs. The CDEs, in turn, loaned the $55.2 million in funds less payment of placement fees, at interest rates varying from 0.7099% to 0.7693%, to Unicom, as partial financing for TERRA-NW.

On December 11, 2012, we entered into the third arrangement ("NMTC #3"). In connection with the NMTC #3 transaction we loaned $8.2 million to TIF 3, a special purpose entity created to effect the financing arrangement, at 1% interest due December 10, 2042. Simultaneously, US Bancorp invested $3.8 million in TIF 3. TIF 3 then contributed US Bancorp's contributions and the loan proceeds to a CDE. The CDE, in turn, loaned the $12.0 million in funds less payment of placement fees, at an interest rate of 1.35%, to Unicom, as partial financing for TERRA-NW.

US Bancorp is the sole investor in TIF, TIF 2, TIF 2-USB and TIF 3, and as such, is entitled to substantially all of the benefits derived from the NMTCs. All of the loan proceeds to Unicom net of syndication and arrangement fees, were restricted for use on TERRA-NW. We completed construction of TERRA-NW and placed the final phase into service in 2014.

These transactions include put/call provisions whereby we may be obligated or entitled to repurchase US Bancorp's interests in TIF, TIF 2, TIF 2-USB and/or TIF 3. We believe that US Bancorp will exercise the put options in August 2018, October 2019 and December 2019, at the end of the compliance periods for NMTC #1, NMTC #2 and NMTC #3, respectively. The NMTCs are subject to 100% recapture for a period of seven years as provided in the Internal Revenue Code. We are required to be in compliance with various regulations and contractual provisions that apply to the NMTC arrangements. Non-compliance with applicable requirements could result in projected tax benefits not being realized by US Bancorp. We have agreed to indemnify US Bancorp for any loss or recapture of NMTCs until such time as our obligation to deliver tax benefits is relieved. There have been no credit recaptures as of June 30, 2016. The value attributed to the puts/calls is nominal.

We have determined that TIF, TIF 2, TIF 2-USB and TIF 3 are VIEs. The consolidated financial statement of TIF, TIF 2, TIF 2-USB and TIF 3 include the CDEs discussed above. The ongoing activities of the VIEs – collecting and remitting interest and fees and NMTC compliance – were all considered in the initial design and are not expected to significantly affect economic performance throughout the life of the VIEs. Management considered the contractual arrangements that obligate us to deliver tax benefits and provide various other guarantees to US Bancorp; US Bancorp's lack of a material interest in the underlying economics of the project; and the fact that we are obligated to absorb losses of the VIEs. We concluded that we are the primary beneficiary of each and consolidated the VIEs in accordance with the accounting standard for consolidation.

US Bancorp's contributions, net of syndication fees and other direct costs incurred in structuring the NMTC arrangements, are included in Non-controlling Interests on the Consolidated Balance Sheets. Incremental costs to maintain the structure during the compliance period are recognized as incurred to selling, general and administrative expense.

The assets and liabilities of our consolidated VIEs were $140.9 million and $104.2 million, respectively, as of June 30, 2016 and December 31, 2015.

Equity Method Investment
We own a 40.8% interest in a next generation carrier-class communications services firm. We account for our investment using the equity method. Due to declining economic conditions in the sector in which it operates, additional financing was needed for the company to maintain its business plan. In March 2015, the existing owners provided financial support in the form of a loan of which our portion was $3.0 million. We determined that the additional financing provided to the company was a reconsideration event under ASC 810 and subsequently determined that the entity is a VIE due to insufficient equity to finance its operations as a result of the decline in economic conditions.

We concluded that the company's board has the power to direct the significant activities of the entity. The board is comprised of five members of which we may choose two of the board members. As we do not control the board, we concluded that we do not have the power to direct the significant activities of the entity and are not the primary beneficiary.

During the second quarter of 2015, it became apparent that we would not recover the carrying value of our investment and we subsequently wrote-off the entire value of our investment. We received full payment on the $3.0 million note receivable in January 2016 and we do not have a contractual obligation to provide additional financing. We currently have no exposure to loss related to our involvement with the VIE.

(10) Software
Impairment
During the years ended December 31, 2013 and 2014, we internally developed computer software in our Wireline segment to replace our wireless, Internet, video, local service, and long distance customer billing systems. During the first quarter of 2015, we completed a detailed assessment of our progress to date and determined it was no longer probable that the computer software being developed would be completed and placed in service. Our assessment concluded that the cost of continuing the development would be much higher than originally estimated, and the timing and scope risks were substantial. We identified development work, hardware, and software recorded as Construction in Progress through June 30, 2015, that may be applicable to our replacement customer billing solution, future internally developed software, and other system needs and therefore should remain capital assets. We considered the remaining capital expenditures for this billing system to have a fair value of $0 and recorded an impairment charge of $0.9 million and $20.7 million during the three and six months ended June 30, 2015 by recording an expense which is included in Software Impairment Charge in our Consolidated Statements of Operations.

During the first quarter of 2015, we reassessed our plans for our internally developed machine-to-machine billing system in our Wireline segment, and decided to no longer market this system to third parties. Accordingly we recognized an impairment charge of $6.6 million during the six months ended June 30, 2015 by recording an expense which is included in Software Impairment Charge in our Consolidated Statements of Operations.

(11) Subsequent Event
On July 11, 2016, we repurchased 1,000,000 shares of our Class A common stock for $16.1 million.

On July 29, 2016, we executed a Membership Interest Purchase Agreement to acquire Kodiak Kenai Cable Company, the owner of the Kodiak Kenai Fiber Link ("KKFL") for consideration of $20.0 million. KKFL is the only low latency redundant fiber link between Anchorage, the Kenai Peninsula and Kodiak and it will ensure we have diverse, protected network capacity to these markets to support our current and future broadband requirements. Closing is subject to the consent of the Federal Communications Commission.

On August 1, 2016, we received $91.0 million for the initial closing to sell the majority of our urban wireless rooftop and tower sites to Vertical Bridge. Additionally, we entered into a Master Lease Agreement with Vertical Bridge to lease collocation space on communications towers and facilities that were sold to Vertical Bridge.

Part I

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our interim consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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. On an on-going basis, we evaluate our estimates and judgments, including those described in Note 1(n) in the accompanying "Condensed Notes to Interim Consolidated Financial Statements" included in Part I of this quarterly report on Form 10-Q. We base our estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. See also our "Cautionary Statement Regarding Forward-Looking Statements."

Update on Economic Conditions

We offer wireless and wireline telecommunication services, data services, video services, and managed services to customers primarily throughout Alaska. Because of this geographic concentration, growth of our business and operations depends upon economic conditions in Alaska. The economy of Alaska is dependent upon the oil industry, state government spending, United States military spending, investment earnings and tourism. Prolonged periods of low oil prices will adversely impact the Alaska economy, which in turn could have an adverse impact on the demand for our products and services and on our results of operations and financial condition.

Oil prices have continued to remain low which has put significant pressure on the Alaska state government budget since the majority of its revenues come from the oil industry. While the Alaska state government has significant reserves that we believe will help fund the state government for the next couple of years, major structural budgetary reforms will need to be implemented in order to offset the impact of declining oil prices. The State of Alaska failed to pass a workable long-term fiscal plan during the recent legislative session. As a result, we plan to reduce our 2017 Alaska capital expenditure budget by 20% to 25% of the 2016 target of $210.0 million due substantially to the continued uncertainty of the ability of the State of Alaska to adopt and implement a workable long-term fiscal plan.

General Overview

Through our focus on long-term results, acquisitions, and strategic capital investments, we strive to consistently grow our Adjusted EBITDA, as defined in Note 7 in "Part I - Item 1 - Condensed Notes to Interim Consolidated Financial Statements." We have historically met our cash needs for operations and regular and maintenance capital expenditures through our cash flows from operating activities. Historically, cash requirements for significant acquisitions and major capital expenditures have been provided largely through our financing activities.

On February 2, 2015, we purchased Alaska Communications Systems Group, Inc.'s ("ACS") interest in The Alaska Wireless Network, LLC ("AWN") and substantially all the assets of ACS and its affiliates related to ACS's wireless operations ("Acquired ACS Assets") (collectively the "Wireless Acquisition"). Under the terms of the agreement, we transfered to ACS a cash payment of $293.2 million excluding working capital adjustments and agreed to terminate or amend certain agreements related to the use of ACS network assets that were included as part of the original transaction that closed in July 2013. The Acquired ACS Assets include substantially all of ACS's wireless subscriber assets, including subscriber contracts, and certain of ACS's CDMA network assets, including fiber strands and associated cell site electronics and microwave facilities and associated electronics. We assumed from ACS post-closing liabilities of ACS and its affiliates under contracts assumed by us and liabilities with respect to the ownership by ACS of its equity interest in AWN to the extent accruing and related to the period after closing. All other liabilities were retained by ACS and its affiliates.

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

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Percentage Change[1] 2016 vs. 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	Percentage Change[1] 2016 vs. 2015
Statements of Operations Data:						
Revenues:						
Wireless segment	23%	27%	(21)%	23%	27%	(17)%
Wireline segment	77%	73%	—%	77%	73%	2%
Total revenues	100%	100%	(6)%	100%	100%	(3)%
Selling, general and administrative expenses	38%	34%	6%	38%	35%	5%
Depreciation and amortization expense	21%	18%	6%	20%	19%	5%
Software impairment charge	—%	—%	(100)%	—%	6%	(100)%
Operating income	8%	16%	(50)%	9%	8%	(1)%
Other expense, net	6%	25%	(77)%	6%	18%	(66)%
Income (loss) before income taxes	2%	(9)%	120%	2%	(10)%	117%
Net income (loss)	1%	(6)%	117%	1%	(7)%	111%
Net income (loss) attributable to non-controlling interests	—%	—%	(10)%	—%	—%	136%
Net income (loss) attributable to GCI	1%	(6)%	118%	1%	(7)%	111%

[1]Percentage change in underlying data

We evaluate performance and allocate resources based on Adjusted EBITDA, which is defined as earnings plus cash received in excess of revenue recognized for long-term fixed roaming arrangements and imputed interest on financed devices before:

- Net interest expense,
- Income taxes,
- Depreciation and amortization expense,
- Loss on extinguishment of debt,
- Software impairment charge,
- Derivative instrument unrealized income (loss),
- Share-based compensation expense,
- Accretion expense,
- Loss attributable to non-controlling interest resulting from NMTC transactions,
- Gains and impairment losses on equity and cost method investments, and
- Other non-cash adjustments.

Management believes that this measure is useful to investors and other users of our financial information in understanding and evaluating operating performance as an analytical indicator of income generated to service debt and fund capital expenditures. In addition, multiples of current or projected Adjusted EBITDA are used to estimate current or prospective enterprise value. See Note 7 in the accompanying "Condensed Notes to Interim Consolidated Financial Statements" included in Part I of this quarterly report on Form 10-Q for a reconciliation of consolidated Adjusted EBITDA, a non-GAAP financial measure, to consolidated income (loss) before income taxes.

Overview of Revenues and Cost of Goods Sold
Total revenue, Cost of Goods Sold, and Adjusted EBITDA for the three and six months ended June 30, 2016 and 2015 are as follows (amounts in thousands):

		Three Months Ended June 30,		Percentage		Six Months Ended June 30,		Percentage
		2016	2015	Change		2016	2015	Change
Revenue	$	233,766	247,528	(6)%	$	464,864	478,617	(3)%
Cost of Goods Sold	$	78,141	79,256	(1)%	$	154,432	154,024	— %
Adjusted EBITDA	$	79,040	88,001	(10)%	$	157,146	163,304	(4)%

See the discussion below for more information by segment.

Wireless Segment Overview

The Wireless segment was impacted by the Wireless Acquisition discussed above in the General Overview section. From the formation of AWN in 2013 to the close of the Wireless Acquisition on February 2, 2015, AWN provided wholesale services to GCI and ACS and roaming services to other wireless carriers. During that time, AWN received a portion of its revenue from GCI and ACS' retail wireless customers. Additionally, AWN paid an incentive to GCI and ACS for the sale of wireless handsets to their respective retail customers. Following the close of the Wireless Acquisition, the Wireless segment continues to provide roaming services to other wireless carriers and provides wholesale services to the Wireline segment for which it receives a portion of its revenue from wireless retail customers. Additionally, the Wireless segment started recording a portion of the wireless equipment costs to encourage the Wireline segment to transition customers from our CDMA network to our GSM network.

Wireless segment revenue, Cost of Goods Sold, and Adjusted EBITDA for the three and six months ended June 30, 2016 and 2015 are as follows (amounts in thousands):

		Three Months Ended June 30,		Percentage		Six Months Ended June 30,		Percentage
		2016	2015	Change		2016	2015	Change
Revenue	$	53,875	67,940	(21)%	$	105,337	127,144	(17)%
Cost of Goods Sold	$	17,081	18,335	(7)%	$	32,113	35,866	(10)%
Adjusted EBITDA[1]	$	40,334	45,727	(12)%	$	80,398	83,114	(3)%

[1] Wireless Adjusted EBITDA includes a $7.5 million and $15.0 million adjustment in the three and six months ended June 30, 2016, respectively, for cash received in excess of revenue recognized for long-term fixed roaming arrangements. See Note 7 in the accompanying "Condensed Notes to Interim Consolidated Financial Statements" included in Part I of this quarterly report on Form 10-Q for more information.

Wireless Segment Revenues

The decrease in revenue for the three and six months ended June 30, 2016 when compared to the same periods in 2015 is primarily due to the following:

- A $12.7 million or 43% and $17.7 million or 36% decrease in roaming revenue for the three and six months ended June 30, 2016 when compared to the same periods in 2015, respectively, due to long-term roaming agreements we have entered into with our largest roaming partners and
- A $3.2 million or 16% and $7.8 million or 18% decrease in plan fee revenue for the three and six months ended June 30, 2016 when compared to the same periods in 2015, respectively, primarily due to a decrease in subscribers and discounts given to customers who finance or bring their own device.

Wireless Segment Cost of Goods Sold

The decrease in Cost of Goods Sold for the three and six months ended June 30, 2016 when compared to the same periods in 2015 is primarily due to the following:

- A $2.4 million or 53% and $5.6 million or 58% decrease in roaming costs for the three and six months ended June 30, 2016 when compared to the same periods in 2015, respectively, primarily due to renegotiated roaming agreements and
- A $2.8 million or 100% and $4.6 million or 100% decrease in wireless equipment costs for the three and six months ended June 30, 2016 when compared to the same periods in 2015, respectively. Through the February 2, 2015 close of the Wireless Acquisition, the Wireless segment gave a wireless equipment subsidy to the Wireline segment in accordance with the AWN agreements. Following the close of the Wireless Acquisition, this subsidy was discontinued but the Wireless segment started recording a portion of the wireless equipment costs to encourage the Wireline segment to transition customers from our CDMA network to our GSM network which partially offset the decrease. All wireless equipment costs are recorded in the Wireline segment in 2016.

The decreases above are partially offset by a $1.7 million or 43% and $3.5 million or 48% increase for the three and six months ended June 30, 2016 when compared to the same periods in 2015, respectively, primarily due to an increase in network maintenance costs primarily due to the expansion of our network and an increase in utility and operating costs. Additionally, the release of a reserve during the first quarter of 2015 contributed to the increase for the six months ended June 30, 2016 when compared to the same period in 2015.

Wireless Segment Adjusted EBITDA
The decrease in Adjusted EBITDA for the three and six months ended June 30, 2016 when compared to the same periods in 2015 is primarily due to a decrease in revenues as described above in "Wireless Segment Revenues, partially offset by the following:

- Addition of cash received in excess of revenue recognized for long-term fixed roaming arrangements, and
- Decreased Cost of Goods Sold as described above in "Wireless Segment Cost of Goods Sold."

Wireline Segment Overview
Our Wireline segment offers services and products under two major customer groups as follows:

	Customer Group	
Wireline Segment Services and Products	Consumer	Business
Retail wireless	X	X
Data:		
Internet	X	X
Data networks		X
Managed services		X
Video	X	X
Voice:		
Long-distance	X	X
Local access	X	X

- Consumer – we offer a full range of retail wireless, data, video and voice services to residential customers.
- Business – we offer a full range of wireless, data, video, voice, and managed services to businesses, governmental entities, and educational institutions and wholesale data and voice services to common carrier customers and regulated voice services to residential and commercial customers in rural communities primarily in Southwest Alaska.

The components of Wireline segment revenue for the three and six months ended June 30, 2016 and 2015 are as follows (amounts in thousands):

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Percentage Change	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	Percentage Change
Consumer						
Wireless	$ 15,651	20,705	(24)%	$ 30,189	37,115	(19)%
Data	34,818	32,034	9 %	69,778	63,306	10 %
Video	26,813	28,921	(7)%	55,160	58,146	(5)%
Voice	6,764	7,729	(12)%	13,806	15,530	(11)%
Business						
Wireless	2,322	2,247	3 %	4,582	4,041	13 %
Data	73,189	66,861	9 %	145,200	132,035	10 %
Video	4,832	4,621	5 %	9,894	9,035	10 %
Voice	15,502	16,470	(6)%	30,918	32,265	(4)%
Total Wireline segment revenue	$ 179,891	179,588	— %	$ 359,527	351,473	2 %

Wireline segment Cost of Goods Sold and Adjusted EBITDA for the three and six months ended June 30, 2016 and 2015 are as follows (amounts in thousands):

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Percentage Change	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	Percentage Change
Wireline segment Cost of Goods Sold	$ 61,060	60,921	— %	$ 122,319	118,158	4 %
Wireline segment Adjusted EBITDA	$ 38,706	42,274	(8)%	$ 76,748	80,190	(4)%

Selected key performance indicators for our Wireline segment follow:

	June 30, 2016	June 30, 2015	Percentage Change
Consumer			
Data:			
Cable modem subscribers[1]	127,000	122,300	4 %
Video:			
Basic subscribers[2]	110,000	112,900	(3)%
Digital programming tier subscribers[3]	55,600	60,000	(7)%
HD/DVR converter boxes[4]	117,800	108,300	9 %
Homes passed	249,500	249,600	— %
Video ARPU - quarter-to-date[5]	$ 80.38	$ 84.60	(5)%
Video ARPU - year-to-date[6]	$ 81.98	$ 84.48	(3)%
Voice:			
Total local access lines in service[7]	49,500	52,000	(5)%
Business			
Data:			
Cable modem subscribers[1]	13,000	14,400	(10)%
Voice:			
Total local access lines in service[7]	46,200	47,200	(2)%
Combined Consumer and Business			
Wireless			

Consumer Lifeline wireless lines in service [8]	28,400	28,400	— %
Consumer prepaid wireless lines in service [9]	27,900	26,700	4 %
Consumer postpaid wireless lines in service [10]	143,900	151,800	(5)%
Business postpaid wireless lines in service [10]	27,900	29,200	(4)%
Total wireless lines in service	228,100	236,100	(3)%
Wireless ARPU - quarter-to-date[11]	$ 39.22	$ 47.26	(17)%
Wireless ARPU - year-to-date [12]	$ 39.62	$ 47.75	(17)%
Cable Modem ARPU - quarter-to-date[13]	$ 88.32	$ 83.93	5 %
Cable Modem ARPU - year-to-date [14]	$ 88.09	$ 83.93	5 %

[1] A cable modem subscriber is defined by the purchase of cable modem service regardless of the level of service purchased. If one entity purchases multiple cable modem service access points, each access point is counted as a subscriber.

[2] A basic subscriber is defined as one basic tier of service delivered to an address or separate subunits thereof regardless of the number of outlets purchased.

[3] A digital programming tier subscriber is defined as one digital programming tier of service delivered to an address or separate subunits thereof regardless of the number of outlets or digital programming tiers purchased. Digital programming tier subscribers are a subset of basic subscribers.

[4] A high-definition/digital video recorder ("HD/DVR") converter box is defined as one box rented by a digital programming or basic tier subscriber. A digital programming or basic tier subscriber is not required to rent an HD/DVR converter box to receive service.

[5] Applicable average monthly video revenues divided by the average number of basic subscribers at the beginning and end of each month in the period ("Video ARPU") for the three months ended June 30, 2016 and 2015.

[6] Video ARPU for the six months ended June 30, 2016 and 2015.

[7] A local access line in service is defined as a revenue generating circuit or channel connecting a customer to the public switched telephone network.

[8] A Lifeline wireless line in service is defined as a revenue generating wireless device that is eligible for Lifeline support. The Universal Service Fund's Lifeline program is administered by the Universal Service Administrative Company and is designed to ensure that quality telecommunications services are available to low-income customers at affordable rates.

[8] A prepaid wireless line in service is defined as a revenue generating wireless device where service is purchased in advance of use. The purchased credit is used to pay for wireless services at the point the service is accessed or consumed.

[10] A postpaid wireless line in service is defined as a revenue generating wireless device where service is provided by a prior arrangement with a subscriber and the subscriber is billed after the fact according to their use of wireless services at the end of each month.

[11] Average monthly wireless revenues, excluding those from common carrier customers, divided by the average number of wireless subscribers at the beginning and end of each month in the period ("Wireless ARPU") for the three months ended June 30, 2016. Average of the monthly wireless revenues, excluding those from common carrier customers, divided by the number of wireless subscribers at the end of each month for each of the months in the three months ended June 30, 2015. Revenue used for this calculation includes Wireline segment - Consumer - Wireless, Wireline segment - Business - Wireless and wholesale wireless revenues earned from GCI retail subscribers included in the Wireless segment.

[12] Wireless ARPU for the six months ended June 30, 2016. Average of the monthly wireless revenues, excluding those from common carrier customers, divided by the number of wireless subscribers at the end of each month for each of the months in the six months ended June 30, 2015. Revenue used for this calculation includes Wireline segment - Consumer - Wireless, Wireline segment - Business - Wireless and wholesale wireless revenues earned from GCI retail subscribers included in the Wireless segment.

[13] Applicable average monthly cable modem revenues divided by the average number of subscribers at the beginning and end of each month in the period ("Cable Modem ARPU") for the three months ended June 30, 2016 and 2015.

[14] Cable Modem ARPU for the six months ended June 30, 2016 and 2015.

Wireline Segment Revenues

Consumer

The decrease in wireless revenue for the three and six months ended June 30, 2016 when compared to the same periods in 2015, respectively, is primarily due to a decrease in the number of subscribers, discounts given to customers who finance or bring their own device, and a $2.0 million or 23% and $1.7 million or 12% decrease in equipment sales revenue in the three and six months ended June 30, 2016 when compared to the same periods in 2015, respectively, primarily due to a decrease in the number of wireless devices sold.

The increase in data revenue is primarily due to a $2.8 million or 9% and $6.5 million or 11% increase in cable modem revenue for the three and six months ended June 30, 2016 when compared to the same periods in 2015 due to an increase in the number of subscribers and our subscribers' selection of plans that offer higher speeds and higher included usage amounts.

Consumer video revenue faces challenges as more customers choose to have their video content delivered via the Internet. However, as a major Internet-provider ourselves, this selection may result in additional data service revenue to the extent we grow average cable modem revenue per subscriber.

We expect Consumer voice revenue to continue to decrease due to a growing number of customers using wireless service as their primary voice phone service for local and long distance calling.

Business
Business data revenue is comprised of monthly recurring charges for data transport and storage services and charges billed on a time and materials basis largely for personnel providing on-site customer support. The time and materials revenue can vary significantly based on project activity. This revenue faces challenges due to the continued decline of oil prices which negatively impacts certain of our customers. Additionally, we face rate compression for data transport and storage services.

The increase in data revenue for the three and six months ended June 30, 2016 when compared to the same periods in 2015 is primarily due to a $5.9 million or 11% and $14.0 million or 13% increase in data transport and storage revenue due to new customers and increased purchases by our existing customers.

Wireline Segment Cost of Goods Sold
The increase in Wireline segment Cost of Goods Sold for the three and six months ended June 30, 2016 when compared to the same periods in 2015 is primarily due to a $1.7 million or 19% and a $3.6 million or 22% increase in Business Cost of Goods Sold for the three and six months ended June 30, 2016 when compared to the same periods in 2015, respectively, primarily due to an increase in circuit costs to provide increased capacity in satellite served locations for Business customers. The increase for the three months ended June 30, 2016 is partially offset by a $1.1 million or 9% decrease in wireless Cost of Goods Sold primarily due to a decrease in the number of handsets sold.

Wireline Segment Adjusted EBITDA
The decrease in Adjusted EBITDA for the three months ended June 30, 2016 when compared to the same period in 2015 is primarily due to an increase in selling, general and administrative expense. The decrease in Adjusted EBITDA for the six months ended June 30, 2016 when compared to the same period in 2015 is primarily due to an increase in Cost of Goods Sold as described above in "Wireline Segment Cost of Goods Sold" and in selling, general and administrative expense partially offset by an increase in revenue as described in "Wireline Segment Revenues."

Selling, General and Administrative Expenses
Selling, general and administrative expenses increased 6% to $88.0 million and 5% to $175.7 million for the three and six months ended June 30, 2016 when compared to the same periods in 2015, respectively. Items contributing to the increase include:

- A $4.1 million and $9.0 million increase in labor and health insurance costs for the three and six months ended June 30, 2016 when compared to the same periods in 2015, respectively,
- A $2.3 million and $4.5 million increase in professional and contract services costs for the three and six months ended June 30, 2016 when compared to the same periods in 2015, respectively,
- A $0.7 million and $2.9 million increase in software contracts with subscription licenses instead of perpetual licenses for the three and six months ended June 30, 2016 when compared to the same periods in 2015, respectively, and
- A $1.1 million and $2.2 million increase to support a campaign to encourage public action related to the State of Alaska budget for the three and six months ended June 30, 2016 when compared to the same periods in 2015, respectively.

The increases above are partially offset by the absence of $2.8 million and $8.6 million for costs related to the acquisition of ACS' wireless subscribers and its non-controlling interest in AWN in the three and six months ended June 30, 2016 when compared to the same periods in 2015, respectively.

As a percentage of total revenues, selling, general and administrative expenses increased from 34% for the three and six months ended June 30, 2015 to 38% for the three and six months ended June 30, 2016.

Depreciation and Amortization Expense
Depreciation and amortization expense increased $2.9 million to $48.1 million and $4.8 million to $95.2 million in the three and six months ended June 30, 2016 compared to the same periods in 2015. The increase is primarily due to new assets placed in service in the last six months of 2015 and in the first six months of 2016, partially offset by assets which became fully depreciated during the last six months of 2015 and in the first six months of 2016.

Software Impairment Charge
Software impairment charge decreased $0.9 million and $27.3 million in the three and six months ended June 30, 2016 when compared to the same periods in 2015 primarily due to the absence of an impairment charge as discussed below.

During the years ended December 31, 2013 and 2014, we internally developed computer software to replace our wireless, Internet, video, local service, and long distance customer billing systems. During the first quarter of 2015, we completed a detailed assessment of our progress to date and determined it was no longer probable that the computer software being developed would be completed and placed in service. Our assessment concluded that the cost of continuing the development would be much higher than originally estimated, and the timing and scope risks were substantial. We identified development work, hardware, and software recorded as Construction in Progress through June 30, 2015, that may be applicable to our replacement customer billing solution, future internally developed software, and other system needs and therefore should remain capital assets. We considered the remaining capital expenditures for this billing system to have a fair value of $0 and recorded an impairment charge of $0.9 million and $19.8 million during the three and six months ended June 30, 2015, by recording an expense which is included in Software Impairment Charge in our Consolidated Statements of Operations. We have signed a contract with an established billing solution provider and have begun the multi-year implementation.

During the first quarter of 2015, we reassessed our plans for our internally developed machine-to-machine billing system and decided to no longer market this system to third parties. Accordingly we recognized an impairment of $6.6 million during the six months ended June 30, 2015, by recording an expense which is included in Software Impairment Charge in our Consolidated Statements of Operations.

Other Expense, Net
Other expense, net of other income, decreased $47.1 million to $14.1 million and $57.4 million to $30.1 million in the three and six months ended June 30, 2016 when compared to the same periods in 2015, respectively. Items contributing to the change include:

- The absence of a $27.7 million loss on extinguishment of debt for the three and six months ended June 30, 2015,
- The absence of a $12.6 million impairment charge for the three and six months ended June 30, 2015 to reflect an other than temporary decline in fair value for one of our equity investments,
- A $6.5 million and $11.0 million unrealized gain for the three and six months ended June 30, 2016, respectively, recorded for a derivative instrument where we issued 3.0 million stock appreciation rights to an affiliate of Searchlight Capital, L.P. ("Searchlight") compared to a $3.0 million and $5.1 million unrealized loss for the three and six months ended June 30, 2015, respectively.
- The absence of a $4.7 million gain for the three and six months ended June 30, 2015 recorded upon the sale of one of our cost method investments, and
- The absence of a $2.6 million net loss for the six months ended June 30, 2015, from adjusting to fair value the assets included in the consideration transfered in the Wireless Acquisition and adjusting to fair value amendments to certain agreements related to the right to use ACS network assets.

Income Tax (Expense) Benefit
Income tax expense totaled $2.1 million and $5.2 million and our effective income tax rate was 39% and 55% in the three and six months ended June 30, 2016, respectively. Income tax benefit totaled $6.3 million and $13.1 million and our effective income tax rate was 29% and 27% in the three and six months ended June 30, 2015, respectively. Our 2016 effective income tax rate is impacted by the amount of expected permanent differences in 2016 as compared to our expected net income before income taxes.

At June 30, 2016, we have income tax net operating loss carryforwards of $347.5 million that will begin expiring in 2020 if not utilized, and alternative minimum tax credit carryforwards of $1.7 million available to offset regular income taxes payable in future years.

We have recorded deferred tax assets of $142.8 million associated with income tax net operating losses that were generated from 2000 to 2016 and that expire from 2020 to 2036, respectively, and with charitable contributions that were converted to net operating losses in 2004 through 2007, 2013, and 2014 and that expire in 2024 through 2027, 2033, and 2034, respectively.

Tax benefits associated with recorded deferred tax assets are considered to be more likely than not realizable through future reversals of existing taxable temporary differences and future taxable income exclusive of reversing temporary differences and carryforwards. The amount of deferred tax assets considered realizable, however, could be reduced if estimates of future taxable income during the carryforward period are reduced which would result in additional income tax expense. We estimate that our effective annual income tax expense rate for financial statement purposes will be 52% to 57% in the year ending December 31, 2016.

Liquidity and Capital Resources

Our principal sources of current liquidity are cash and cash equivalents. We believe, but can provide no assurances, that we will be able to meet our current and long-term liquidity, capital requirements and fixed charges through our cash flows from operating activities, existing cash, cash equivalents, and credit facilities, and other external financing and equity sources. Should operating cash flows be insufficient to support additional borrowings and principal payments scheduled under our existing credit facilities, capital expenditures will likely be reduced, which would likely reduce future revenues.

On August 1, 2016, we received $91.0 million for the initial closing to sell the majority of our urban wireless rooftop and tower sites to Vertical Bridge. Additionally, we entered into a Master Lease Agreement with Vertical Bridge to lease collocation space on communications towers and facilities that were sold to Vertical Bridge.

As discussed in the General Overview section of this Item 2, on February 2, 2015, we completed the Wireless Acquisition to purchase ACS' wireless subscriber base and its one-third ownership interest in AWN for $293.2 million excluding working capital adjustments and the termination or amendment of certain agreements related to the use of ACS network assets that were included as part of the original transaction that closed in July 2013. Following the close of the transaction, AWN is our wholly owned subsidiary and we are entitled to 100% of the future cash flows from AWN.

To fund the purchase from ACS, on February 2, 2015, our wholly owned subsidiary, GCI Holdings, Inc., entered into a Fourth Amended and Restated Credit and Guarantee Agreement with Credit Agricole Corporate and Investment Bank, as administrative agent, that included a $275.0 million Term B loan ("Senior Credit Facility"). The Senior Credit Facility was subsequently amended on August 3, 2015 ("First Amendment"). The interest rate under the Term B loan is London Interbank Offered Rate (“LIBOR”) plus 3.25%, with a 0.75% LIBOR floor. The Term B loan will mature on February 2, 2022 or December 3, 2020, if our Senior Notes due 2021 are not refinanced prior to such date. We also sold an unsecured promissory note to Searchlight in the principal amount of $75.0 million that will mature on February 2, 2023 and will bear interest at a rate of 7.5% per year ("Searchlight Note"). A portion of the proceeds from the Searchlight Note were used to finance the Wireless Acquisition and the remainder was used for general corporate purposes. Additionally, we entered into a stock appreciation rights agreement pursuant to which we issued to Searchlight three million stock appreciation rights which entitles Searchlight to receive, upon exercise, an amount payable at our election in either cash or shares of GCI's Class A common stock equal in value to the excess of the fair market value of a share of GCI Class A common stock on the date of exercise over the price of $13.00.

While our short-term and long-term financing abilities are believed to be adequate as a supplement to internally generated cash flows to fund capital expenditures and acquisitions as opportunities arise, turmoil in the global financial markets may negatively impact our ability to further access the capital markets in a timely manner and on attractive terms, which may have a negative impact on our ability to grow our business.

We monitor the third-party depository institutions that hold our cash and cash equivalents. Our emphasis is primarily on safety of principal and secondarily on maximizing yield on those funds.

Investing Activities
Net cash used for investing activities consists primarily of cash paid for capital expenditures. Our most significant recurring investing activity has been capital expenditures and we expect that this will continue in the future. A significant portion of our capital expenditures is based on the level of customer growth and the technology being deployed.

Our cash expenditures for property and equipment, including construction in progress, totaled $89.8 million and $92.0 million during the six months ended June 30, 2016 and 2015, respectively. Depending on available opportunities and the amount of cash flow we generate during 2016, we expect our 2016 capital expenditures to total approximately $210.0 million. This estimate is based on purchases in 2016 regardless of the timing of cash payments.

The State of Alaska failed to pass a workable long-term fiscal plan during the recent legislative session. As a result, we plan to reduce our 2017 Alaska capital expenditure budget by 20% to 25% of the 2016 target of $210.0 million due substantially to the continued uncertainty of the ability of the State of Alaska to adopt and implement a workable long-term fiscal plan.

Financing Activities
Net cash used for financing activities for the six months ended June 30, 2016, consists primarily of repurchases of our stock partially offset by net borrowings on our Senior Credit Facility. Net cash used by financing activities during the six months ended June 30, 2015, consists primarily of cash paid for the Wireless Acquisition, repurchases of our stock, and payments related to the issuance of $450.0 million of new 6.875% Senior Notes due 2025 (see Note 6(b) of our December 31, 2015 annual report on Form 10-K) partially offset by borrowings on our Senior Credit Facility and Searchlight Note to fund the Wireless Acquisition.

Proceeds from borrowings fluctuate from year to year based on our liquidity needs. We may use excess cash to make optional repayments on our debt or repurchase our common stock depending on various factors, such as market conditions.

<u>Available Borrowings Under Amended Senior Credit Facility</u>
Our Senior Credit Facility includes a $150.0 million revolving credit facility with a $25.0 million sublimit for letters of credit. Under the revolving portion of the Senior Credit Facility we have borrowed $15.0 million and have $22.0 million of letters of credit outstanding, which leaves $113.0 million available for borrowing as of June 30, 2016.

<u>Debt Covenants</u>
We are subject to covenants and restrictions under our long-term debt agreements. We are in compliance with the covenants, and we believe that neither the covenants nor the restrictions in our long-term debt agreements will limit our ability to operate our business.

<u>Share Repurchases</u>
GCI's Board of Directors has authorized a common stock buyback program for the repurchase of GCI Class A and Class B common stock in order to reduce the outstanding shares of Class A and Class B common stock. Under this program, we are currently authorized to make up to $86.0 million of repurchases as of June 30, 2016. We are authorized to increase our repurchase limit $5.0 million per quarter indefinitely and to use stock option exercise proceeds to repurchase additional shares. If stock repurchases are less than the total approved quarterly amount the difference may be carried forward and applied against future stock repurchases. During the six months ended June 30, 2016 we repurchased 1.1 million shares of GCI common stock under the stock buyback program at a cost of $19.5 million. The common stock buyback program is expected to continue for an indefinite period dependent on leverage, liquidity, company performance, and market conditions and subject to continued oversight by GCI's Board of Directors. The open market repurchases have and will continue to comply with the restrictions of Securities Exchange Act of 1934 Rule 10b-18.

Critical Accounting Policies and Estimates
Our accounting and reporting policies comply with GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. The financial position and results of operations can be affected by these estimates and assumptions, which are integral to understanding reported results. Critical accounting policies are those policies that management believes are the most important to the portrayal of our financial condition and results, and require management to make estimates that are difficult, subjective or complex. Most accounting policies are not considered by management to be critical accounting policies. Several factors are considered in determining whether or not a policy is critical in the preparation of financial statements. These factors include, among other things, whether the estimates are significant to the financial statements, the nature of the estimates, the ability to readily validate the estimates with other information including third parties or available prices, and sensitivity of the estimates to changes in economic conditions and whether alternative accounting methods may be utilized under GAAP. For all of these policies, management cautions that future events rarely develop exactly as forecast, and the best estimates routinely require adjustment. Management has discussed the development and the selection of critical accounting policies with our Audit Committee.

Those policies considered to be critical accounting policies for 2016 are revenue recognition related to revenues from the Remote high cost, rural health, and schools and libraries USF programs, the allowance for doubtful receivables, impairment and useful lives of intangible assets, and the valuation allowance for net operating loss deferred tax assets. A complete discussion of our critical accounting policies can be found in Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our December 31, 2015 annual report on Form 10-K.

Other significant accounting policies, not involving the same level of measurement uncertainties as those discussed above, are nevertheless important to an understanding of the financial statements. A complete discussion of our significant accounting policies can be found in Note 1 in the accompanying “Condensed Notes to Interim Consolidated Financial Statements” and in Part IV of our annual report on Form 10-K for the fiscal year ended December 31, 2015.

Item 3. 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 and adjustments to the fair value of our derivative stock appreciation rights liability. Market risk is the potential loss arising from adverse changes in market rates and prices. We do not hold or issue financial instruments for trading purposes.

<u>Interest Rate Risk</u>
Our Senior Credit Facility and Wells Fargo note payable carry interest rate risk. Our Senior Credit Facility consists of a term loan, Term B loan, and revolving credit facility. Amounts borrowed under the term loan and revolving credit facility bear interest at LIBOR plus 2.75% or less depending upon our Total Leverage Ratio (as defined in the Senior Credit Facility agreement). Amounts borrowed under the Term B loan bear interest at LIBOR plus 3.25%. Amounts borrowed under the Wells Fargo note payable bear interest at LIBOR plus 2.25%. Should the LIBOR rate change, our interest expense will increase or decrease accordingly. As of June 30, 2016, we have borrowed $535.4 million subject to interest rate risk. On this amount, each 1% increase in the LIBOR interest rate would result in $5.4 million of additional gross interest cost on an annualized basis. All of our other material borrowings have a fixed interest rate.

<u>Other Market Risk</u>
As our derivative stock appreciation rights are subject to fair value liability accounting, we revalue the instrument at each reporting date and recognize changes in the fair value of the derivative liability as a component of Other Income (Expense) included in our Consolidated Statements of Operations. The earnings effect of the fair value adjustment at each reporting date is sensitive to changes in our stock price volatility. At June 30, 2016, a 1% increase in our stock price volatility used to determine the fair value of our stock appreciation rights would result in recognition of $0.3 million of additional derivative instrument unrealized loss.

Item 4. Controls and Procedures
Evaluation of Disclosure Controls and Procedures
We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 (“Exchange Act”) is recorded, processed, summarized, accumulated and communicated to our management, including our principal executive and financial officers, to allow timely decisions regarding required financial disclosure, and reported as

specified in the SEC’s rules and forms. As of the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation of the effectiveness of the design and operation of our “disclosure controls and procedures” (as defined in Exchange Act Rule 13a - 15(e)) under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer. Based on that evaluation, our management, including our Chief Executive Officer and our Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of June 30, 2016.

The certifications attached as Exhibits 31 and 32 to this report should be read in conjunction with the disclosures set forth herein.

Changes in Internal Control Over Financial Reporting
There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) identified in connection with the evaluation of our controls performed during the quarter ended June 30, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements will not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

We may enhance, modify, and supplement internal controls and disclosure controls and procedures based on experience.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

Our business is geographically concentrated in Alaska. Any deterioration in the economic conditions in Alaska could have a material adverse effect on our financial position, results of operations and liquidity.

We offer wireless and wireline telecommunication services, data services, video services, and managed services to customers primarily throughout Alaska. Because of this geographic concentration, growth of our business and operations depends upon economic conditions in Alaska. The economy of Alaska is dependent upon the oil
industry, state government spending, United States military spending, investment earnings and tourism. Oil prices have dropped precipitously recently which has put significant pressure on the Alaska state government budget since the majority of its revenues come from the oil industry. While the Alaska state government has significant reserves that we believe will help fund the state government for the next couple of years, major structural budgetary reforms will need to be implemented in order to offset the impact of declining oil prices. Prolonged periods of low oil prices will adversely impact the Alaska economy, which in turn could have an adverse impact on the demand for our products and services and on our results of operations and financial condition. The State of Alaska failed to pass a workable long-term fiscal plan during the recent legislative session. As a result, we plan to reduce our 2017 Alaska capital expenditure budget by 20% to 25% of the 2016 target of $210.0 million due substantially to the continued uncertainty of the ability of the State of Alaska to adopt and implement a workable long-term fiscal plan.

Additionally, the customer base in Alaska is limited and we have already achieved significant market penetration with respect to our service offerings in Anchorage and other locations in Alaska. We may not be able to continue to increase our market share of the existing markets for our services, and no assurance can be given that the Alaskan economy will grow and increase the size of the markets we serve or increase the demand for the services we offer. As a result, the best opportunities for expanding our business may arise in other geographic areas such as the lower 49 states. There can be no assurance that we will find attractive opportunities to grow our businesses outside of Alaska or that we will have the necessary expertise to take advantage of such opportunities. The markets in Alaska for wireless and wireline telecommunications and video services are unique and distinct within the United States due to Alaska's large geographical size, its sparse population located in a limited number of clusters, and its distance from the rest of the United States. The expertise we have developed in operating our businesses in Alaska may not provide us with the necessary expertise to successfully enter other geographic markets.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not applicable.

(b) Not applicable.

(c) The following table provides information about repurchases of shares of our Class A common stock during the quarter ended June 30, 2016:

	(a) Total Number of Shares Purchased[1]	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[2]	(d) Maximum Number (or approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plan or Programs[3]
April 1, 2016 to April 30, 2016	146,865	$ 17.32	146,377	$ 91,714,328
May 1, 2016 to May 31, 2016	271,164	$ 15.94	270,881	$ 87,527,879
June 1, 2016 to June 30, 2016	144,225	$ 14.73	101,500	$ 86,032,285
Total	562,254			

[1] Consists of 518,758 shares from open market purchases made under our publicly announced repurchase plan and 43,496 shares from private purchases made to settle the minimum statutory tax-withholding requirements pursuant to restricted stock award vesting.

[2] The repurchase plan was publicly announced on November 3, 2004. Our plan does not have an expiration date, however transactions pursuant to the plan are subject to periodic approval by our Board of Directors. We expect to continue the repurchases for an indefinite period dependent on leverage, liquidity, company performance, market conditions and subject to continued oversight by our Board of Directors.

[3] The total amount approved by our Board of Directors for repurchase under our publicly announced repurchase plan was $389.1 million through June 30, 2016, consisting of $378.9 million through December 31, 2015, and an additional $10.2 million during the six months ended June 30, 2016. We have made total repurchases under the program of $303.0 million through June 30, 2016. If stock repurchases are less than the total approved quarterly amount the difference may be carried forward and used to repurchase additional shares in future quarters, subject to board approval.

Item 6. Exhibits

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):

Exhibit No.	Description
3.1	Amended and Restated Bylaws of General Communication, Inc. effective as of June 27, 2016 **
10.1	Twenty-Seventh Amendment to the Full-Time Transponder Capacity Agreement (Pre-Launch) between Intelsat Corporation and GCI Communication, Corp. dated June 17, 2016 # *
31.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by our President and Director *
31.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by our Senior Vice President, Chief Financial Officer and Secretary *
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by our President and Director *
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by our Senior Vice President, Chief Financial Officer and Secretary *
101	The following materials from General Communication, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Stockholders' Equity; (iv) Consolidated Statements of Cash Flows; and (v) Condensed Notes to Interim Consolidated Financial Statements *

#	CONFIDENTIAL PORTION has been omitted pursuant to a request for confidential treatment by us to, and the material has been separately filed with, the SEC. Each omitted Confidential Portion is marked by three asterisks.
*	Filed herewith.
**	Incorporated by reference to the Company's Report on From 8-K for the period June 27, 2016 filed June 30, 2016.

SIGNATURES

Pursuant to the requirements 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.

Signature	Title	Date
/s/ Ronald A. Duncan Ronald A. Duncan	President and Director (Principal Executive Officer)	August 3, 2016
/s/ Peter J. Pounds Peter J. Pounds	Senior Vice President, Chief Financial Officer and Secretary (Principal Financial Officer)	August 3, 2016
/s/ Lynda L. Tarbath Lynda L. Tarbath	Vice President, Chief Accounting Officer (Principal Accounting Officer)	August 3, 2016

Exhibit 10.1

****CONFIDENTIAL PORTION has been omitted pursuant to a request for confidential treatment by the Company to, and the material has been separately filed with, the SEC. Each omitted Confidential Portion is marked by four asterisks.

TWENTY-SEVENTH AMENDMENT TO THE
FULL-TIME TRANSPONDER CAPACITY AGREEMENT (PRE-LAUNCH)

This Twenty-Seventh Amendment to the Full-time Transponder Capacity Agreement (Pre-Launch) (the "Twenty-Seventh Amendment") is made and entered into as of this 17th day of June, 2016 (the "Effective Date") by and between INTELSAT CORPORATION, a Delaware corporation ("Intelsat"), and GCI COMMUNICATIONS CORP., an Alaskan corporation ("Customer").

RECITALS

WHEREAS, pursuant to that certain Full-Time Transponder Capacity Agreement (Pre-Launch) dated as of March 31, 2006, as amended (collectively, the "Agreement") between Intelsat and Customer, Intelsat is providing Customer with **** transponders on ****; **** transponders on ****; **** Transponders on **** (the "**** Transponders"); **** Transponder **** on ****; **** Transponder **** on ****; and **** Transponder **** on ****; and

WHEREAS, Customer wishes to **** Transponders on ****, as further defined below;

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and of mutual covenants and agreements hereinafter set forth, the sufficiency and receipt of which is hereby acknowledged, the parties agree as follows:

1. Except as specifically provided herein, all terms and provisions of the Agreement shall remain in full force and effect.

2. Article 2, Capacity Term. The Capacity Term for **** Transponders, specifically **** shall be **** on ****.

3. Section 3.1, **** Fee. Customer's **** Fee for the **** shall be as set forth in Appendix A.

5. Except as specifically set forth in this Amendment, all terms and conditions of the Agreement remain in full force and effect.

IN WITNESS WHEREOF, each of the Parties hereto has duly executed and delivered this Twenty-Seventh Amendment as of the day and year above written.

INTELSAT CORPORATION		GCI COMMUNICATION CORP.	
By:	/s/ Stephen A. Chernow	By:	/s/ Jimmy R. Sipes
Name:	Stephen A. Chernow	Name:	Jimmy R. Sipes
Title:	VP & Deputy General Counsel	Title:	VP Network Services & Chief Engineer
Date:	June 17, 2016	Date:	June 16, 2016

APPENDIX A

CUSTOMER'S TRANSPONDER CAPACITY AND PAYMENT SCHEDULE FOR
GCI COMMUNICATIONS CORP.

SVO #	****/ Transponder No	Transponder Type	Capacity Term	**** Fee
	****	****	**** _ ****	US$**** **
	****	****	**** _ ****	US$**** **
	****	****	**** _ ****	US$**** *
	****	****	**** _ ****	US$**** **
	****	****	**** _ ****	US$**** **
	****	****	**** _****	US$**** **
	****	****	**** _ ****	US$**** *
	****	****	**** _ ****	US$**** **
	****	****	**** _ ****	US$**** *
	****	****	**** _ ****	US$**** *
	****	****	**** _ ****	US$**** *
	****	****	**** _ ****	US$**** **
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	****	****	**** _ ****	US$**** ***
	****	****	**** _ ****	US$**** ***
	****	****	**** _ ****	US$**** ***
	****	****	**** _ ****	US$**** ** US$**** **
	****	****	**** _ ****	US$**** ****
	****	****	**** _ ****	US$**** **
	****	****	**** _ ****	US$**** ***
	****	****	**** _ ****	US$**** **
	****	****	**** _ ****	US$**** ***
	****	****	**** _ ****	US$**** **
	****	****	**** _ ****	US$**** ***

* **** Fee includes US$**** for **** and the US$**** for each of Customer's **** Transponders under Article 14. If the **** Transponder is **** or when Customer is **** a Transponder on **** (of its successor satellite), the **** Fee for such **** Transponder shall be ****. If, however, the **** Transponder ****, then the **** Fee for such **** Transponder **** to the **** Fee. The **** fee shall be ****.

** **** Fee includes US$**** for **** Fee and the US$**** for each of Customer's **** Transponders with **** under Article 15. If the **** Transponder is **** or when Customer is using a Transponder on ****, the **** Fee for such affected Customer's **** Transponder shall be ****. If, however, the **** Transponder later ****, then the **** Fee for such **** Transponder shall ****. The **** Fee shall be ****.

*** **** Fee includes US$**** for **** and the US$**** for each of the Customer's **** Transponder **** Fees, **** (hereinafter referred to as the **** Fee" as **** is the ****), **** for transponder ****. If the **** Transponder ****, the **** Fee for such affected **** Transponder shall be ****. If, however, the **** Transponder ****, then the **** Fee for such **** Transponder shall **** Fee. The **** Fee shall be ****.

**** **** Fee includes US$**** for ****. No **** is provided for this Transponder.

Exhibit 31.1

SECTION 302 CERTIFICATION

I, Ronald A. Duncan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of General Communication, Inc. for the period ended June 30, 2016;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Ronald A. Duncan

Date: August 3, 2016

Ronald A. Duncan
President and Director

Exhibit 31.2

SECTION 302 CERTIFICATION

I, Peter J. Pounds, certify that:

1. I have reviewed this quarterly report on Form 10-Q of General Communication, Inc. for the period ended June 30, 2016;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Peter J. Pounds

Date: August 3, 2016

Peter J. Pounds
Senior Vice President, Chief Financial Officer, and Secretary (Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of General Communication, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ronald A. Duncan, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date:	August 3, 2016	/s/ Ronald A. Duncan
		Ronald A. Duncan
		Chief Executive Officer
		General Communication, Inc.

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of General Communication, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Peter J. Pounds, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 3, 2016

/s/ Peter J. Pounds

Peter J. Pounds
Chief Financial Officer
General Communication, Inc.