

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

☒ [X] QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 1996

☐ [] 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
(State or other jurisdiction of
incorporation or organization)

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

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

99503
(Zip Code)

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

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 ☒ X No ☐ .

The number of shares outstanding of the registrant's classes
of common stock, as of October 31, 1996 was:

36,578,966 shares of Class A common stock; and
4,082,035 shares of Class B common stock.

<TABLE>

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GENERAL COMMUNICATION, INC.

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 1996

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(i)

<TABLE>

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

<CAPTION>

	(Unaudited) September 30, 1996	December 31, 1995
ASSETS		

(Amounts in thousands)		
<S>		
<C>		
Current assets:		
Cash and cash equivalents (note 2)	\$ 5,255	4,017
	-----	-----
Receivables:		
Trade	24,922	21,737
Income taxes (note 5)	591	---
Other	300	253
	-----	-----
	25,813	21,990
Less allowance for doubtful receivables	298	295
	-----	-----
Net receivables	25,515	21,695
	-----	-----
Prepaid and other current assets	2,423	1,566
Inventory	891	991
Deferred income taxes, net (note 5)	878	746
Notes receivable (note 3)	447	167
	-----	-----
Total current assets	35,409	29,182
	-----	-----
Property and equipment, at cost (notes 4 and 8)		
Land	73	73
Distribution systems	74,468	67,434
Support equipment	15,363	11,610
Property and equipment under capital leases	2,030	2,030
	-----	-----
	91,934	81,147
Less amortization and accumulated depreciation	38,981	33,789
	-----	-----
Net property and equipment in service	52,953	47,358
Construction in progress	17,076	3,096
	-----	-----
Net property and equipment	70,029	50,454
	-----	-----
Notes receivable (note 3)	740	904
Transponder deposit (notes 4 and 10)	7,800	---
Other assets, at cost, net of amortization	5,769	4,225
	-----	-----
Total assets	\$ 119,747	84,765
	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

<TABLE>

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES

Consolidated Balance Sheets
(Continued)

<CAPTION>

	(Unaudited) September 30, 1996	December 31, 1995
LIABILITIES AND STOCKHOLDERS' EQUITY	-----	-----
	(Amounts in thousands)	
<S>	<C>	<C>
Current liabilities:		
Current maturities of long-term debt (note 4)	\$ 31,929	1,689
Current maturities of obligations under capital leases (note 8)	144	282
Accounts payable	15,132	16,861
Accrued payroll and payroll related obligations	3,116	2,108
Deferred revenues	1,134	1,317
Accrued liabilities	1,422	1,134
Accrued income taxes (note 5)	---	547
Accrued interest	415	132
	-----	-----
Total current liabilities	53,292	24,070
Long-term debt, excluding current maturities (note 4)	5,864	8,291
Obligations under capital leases, excluding current maturities (note 8)	---	26
Obligations under capital leases due to related parties, excluding current maturities (note 8)	694	739
Deferred income taxes, net (note 5)	8,841	7,004
Other liabilities	1,858	1,619
	-----	-----
Total liabilities	70,549	41,749
	-----	-----
Stockholders' equity (notes 2, 5 and 6):		
Common stock (no par):		
Class A. Authorized 50,000,000 shares; issued and outstanding 19,852,463 and 19,680,199 shares at September 30, 1996 and December 31, 1995, respectively	14,099	13,912
Class B. Authorized 10,000,000 shares; issued and outstanding 4,085,461 and 4,175,434 shares at September 30, 1996 and December 31, 1995, respectively	3,432	3,432
Less cost of 199,081 and 122,111 Class A common stock held in treasury at September 30, 1996 and December 31, 1995, respectively	(1,010)	(389)
Paid-in capital	4,229	4,041
Retained earnings	28,448	22,020
	-----	-----
Total stockholders' equity	49,198	43,016
	-----	-----
Commitments, contingencies and subsequent event (notes 8, 10 and 11)		
Total liabilities and stockholders' equity	\$ 119,747	84,765
	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

<TABLE>

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

<CAPTION>

	(Unaudited) Three Months Ended September 30,	(Unaudited) Nine Months Ended September 30,
	1996	1995
	-----	-----
-		
	(Amounts in thousands except per share amounts)	
<S>	<C>	<C>

Revenues:				
Transmission services (note 7)	\$ 36,190	31,649	106,729	
88,320				
Systems sales and service	1,935	1,310	7,291	
5,128				
Other	539	404	1,812	
1,468	-----	-----	-----	-----

Total revenues	38,664	33,363	115,832	
94,916				
Cost of sales	22,226	18,117	66,350	
53,036	-----	-----	-----	-----

Contribution	16,438	15,246	49,482	
41,880	-----	-----	-----	-----

Operating costs and expenses:				
Operating and engineering	2,515	2,221	7,550	
6,349				
Sales and communications	3,020	2,578	8,920	
6,500				
General and administrative	4,098	3,888	12,776	
11,674				
Legal and regulatory	420	419	1,271	
1,227				
Bad debt	556	424	1,413	
993				
Depreciation and amortization	1,812	1,608	5,616	
4,733	-----	-----	-----	-----

Total operating costs and expenses	12,421	11,138	37,546	
31,476	-----	-----	-----	-----

Operating income	4,017	4,108	11,936	
10,404	-----	-----	-----	-----

Other income (expense):				
Interest expense (notes 2 and 4)	(415)	(336)	(1,219)	
(927)				
Interest income	146	54	321	
174	-----	-----	-----	-----

Total other income (expense)	(269)	(282)	(898)	
(753)	-----	-----	-----	-----

Earnings before income taxes	3,748	3,826	11,038	
9,651				
Income tax expense (notes 2 and 5)	1,608	1,574	4,610	
3,955	-----	-----	-----	-----

Net earnings	\$ 2,140	2,252	6,428	
5,696	=====	=====	=====	
=====				
Net earnings per common share (note 1(c))	\$.09	.09	.26	
.23	=====	=====	=====	
=====				

</TABLE>

See accompanying notes to consolidated financial statements.

<TABLE>

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

<CAPTION>

	(Unaudited) Shares of Common Stock		Class A Common Stock	Class B Common Stock	(Unaudited) Class A Shares Held in Treasury		Paid-in Capital	Retained Earnings
	Class A	Class B	-----	-----	-----	-----	-----	-----
-								
	(Amounts in thousands)			(Amounts in thousands)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	
Balances at December 31, 1994	19,617	4,179	\$13,830	3,432	(328)	3,641	14,518	
Net earnings	---	---	---	---	---	---	5,696	
Class B shares converted to Class A	3	(3)	---	---	---	---	---	
Tax effect of excess stock compensation expense for tax purposes over amounts recognized for financial reporting purposes	---	---	---	---	---	565	---	
Shares acquired pursuant to officer deferred compensation agreement	---	---	---	---	(51)	---	---	
Shares issued under stock option plan	20	---	44	---	---	---	---	
Shares issued under officer stock option agreements	20	---	---	---	---	3	---	
-	-----	-----	-----	-----	-----	-----	-----	
Balances at September 30, 1995	19,660	4,176	\$13,874	3,432	(379)	4,209	20,214	
	=====	=====	=====	=====	=====	=====	=====	
Balances at December 31, 1995	19,680	4,176	\$13,912	3,432	(389)	4,041	22,020	
Net earnings	---	---	---	---	---	---	6,428	
Class B shares converted to Class A	90	(90)	---	---	---	---	---	
Tax effect of excess stock compensation expense for tax purposes over amounts recognized for financial reporting purposes	---	---	---	---	---	187	---	
Shares acquired pursuant to officer deferred compensation agreement	---	---	---	---	(621)	---	---	
Shares issued under stock option plan	82	---	187	---	---	---	---	
Shares issued under officer stock option agreements	---	---	---	---	---	1	---	
-	-----	-----	-----	-----	-----	-----	-----	
Balances at September 30, 1996	19,852	4,086	\$14,099	3,432	(1,010)	4,229	28,448	
	=====	=====	=====	=====	=====	=====	=====	

</TABLE>

See accompanying notes to consolidated financial statements.

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<TABLE>

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

<CAPTION>

	(Unaudited) Nine Months Ended September 30,	
	1996	1995
	----	----
	(Amounts in thousands)	
<S>	<C>	<C>
Cash flows from operating activities:		
Net earnings	\$ 6,428	5,696
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation and amortization	5,616	4,733
Deferred income tax expense	1,892	1,449
Deferred compensation and compensatory stock options	240	144
Bad debt expense, net of write-offs	3	(124)
Other noncash income and expense items	28	(28)
Change in operating assets and liabilities (note 2)	(5,460)	(2,655)
	-----	-----

Net cash provided by operating activities	8,748	9,215
	-----	-----
Cash flows from investing activities:		
Purchase of property and equipment	(24,767)	(4,831)
Payment of transponder deposit	(7,800)	---
Refund of long-term deposits and purchases of other assets, net	(1,964)	(668)
Notes receivable issued	(397)	(206)
Payments received on notes receivable	249	109
	-----	-----
Net cash used by investing activities	(34,679)	(5,596)
	-----	-----
Cash flows from financing activities:		
Long-term borrowings	29,100	---
Repayments of long-term borrowings and capital lease obligations	(1,496)	(2,353)
Purchase of treasury stock	(621)	---
Proceeds from common stock issuance	187	44
	-----	-----
Net cash provided (used) by financing activities	27,170	(2,309)
	-----	-----
Increase in cash and cash equivalents	1,238	1,310
Cash and cash equivalents at beginning of period	4,017	1,649
	-----	-----
Cash and cash equivalents at end of period	\$ 5,255	2,959
	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Principles

(a) General

General Communication, Inc. ("GCI"), an Alaska corporation, was incorporated in 1979. GCI Communication Corp. ("GCC"), an Alaska corporation, is a wholly owned subsidiary of GCI and was incorporated in 1990. GCI Communication Services, Inc. ("Communication Services"), an Alaska corporation, is a wholly-owned subsidiary of GCI and was incorporated in 1992. GCI Leasing Co., Inc. ("Leasing Company"), an Alaska corporation, is a wholly-owned subsidiary of Communication Services and was incorporated in 1992. GCI and GCC are engaged in the transmission of interstate and intrastate private line and switched message long distance telephone service between Anchorage, Fairbanks, Juneau, and other communities in Alaska and the remaining United States and foreign countries. GCC also provides northbound services to certain common carriers terminating traffic in Alaska and sells and services dedicated communications systems and related equipment. Communication Services provides private network point-to-point data and voice transmission services between Alaska, Hawaii and the western contiguous United States. Leasing Company owns and leases capacity on an undersea fiber optic cable used in the transmission of interstate private line and switched message long distance services between Alaska and the remaining United States and foreign countries.

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the quarter and nine-month periods ended September 30, 1996 are not necessarily indicative of the results that may be expected for the year ended December 31, 1996. For further information, refer to the financial statements and

footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1995.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of GCI, its wholly-owned subsidiaries GCC, and Communication Services, and Communication Services wholly owned subsidiary Leasing Company. All significant intercompany balances and transactions have been eliminated in consolidation.

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GENERAL COMMUNICATION, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Net Earnings Per Common Share

<TABLE>

Primary earnings per common share are determined by dividing net earnings by the weighted number of common and common equivalent shares outstanding (amounts in thousands):

<CAPTION>

ended	Three months ended		Nine months	
	September 30,		September 30,	
	1996	1995	1996	
1995	----	----	----	-

	(Unaudited)		(Unaudited)	
<S>	<C>	<C>	<C>	<C>
23,709	Weighted average common shares outstanding	23,734 23,715	23,700	
611	Common equivalent shares outstanding	1,356 627	1,147	
---		-----	-----	---
	Shares used in computing primary earnings			
24,320	per share	25,090 24,342	24,847	
=====		=====	=====	

</TABLE>

The difference between shares for primary and fully diluted earnings per share was not significant in any period presented.

(d) Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash.

(e) Inventory

Inventory of merchandise for resale and parts is stated at the lower of cost or market. Cost is determined using the first-in, first-out method for parts and the specific identification method for equipment held for resale.

(f) Property and Equipment

Property and equipment is stated at cost. Construction costs of transmission facilities are capitalized. Equipment financed under capital leases is recorded at the lower of fair market value or the present value of future minimum lease payments. Construction in progress represents distribution systems and support equipment not placed in service at September 30, 1996 and December 31, 1995; management intends to place this equipment in service during 1996 and 1997.

The Company's investment in jointly owned earth station assets on Adak Island, Alaska is stated at cost and is depreciated on a straight-line basis over lives ranging from 10 to 12 years. Revenues derived from customers whose service transits the joint facilities are recognized based upon the level of service and supporting facilities that are provided by each owner.

Depreciation and amortization is computed on a straight-line basis

based upon the shorter of the lease term or the estimated useful lives of the assets ranging from 3 to 20 years for distribution systems and 5 to 10 years for support equipment. Amortization of equipment financed under capitalized leases is included in depreciation expense.

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Repairs and maintenance are charged to operations, and renewals and additions are capitalized. Gains or losses are recognized at the time of ordinary retirements, sales or other dispositions of property.

(g) Other Assets

Other assets, excluding deferred loan costs and goodwill, are recorded at cost and are amortized on a straight-line basis over 2 to 15 years. Deferred loan costs are recorded at cost and are amortized on a straight-line basis over the life of the associated loan.

The cost of the Company's PCS license has been capitalized as a long-term other asset and interest has been capitalized in the December 31, 1995 and September 30, 1996 financial statements. Upon placing the associated assets into service, the recorded cost of the license will be amortized over a 40 year period using the straight line method.

Goodwill totaled approximately \$1,209,000 and \$1,286,000 at September 30, 1996 and December 31, 1995, respectively, net of amortization of approximately \$774,000 and \$697,000, respectively. Goodwill represents the excess of cost over fair value of net assets acquired and is being amortized on a straight-line basis over twenty years.

(h) Revenue From Services and Products

Revenues generated from long distance telecommunication services are recognized when the services are provided. System sales from the sale of equipment are recognized at the time the equipment is delivered or installed. Service revenues are derived primarily from maintenance contracts on equipment and are recognized on a prorated basis over the term of the contract. Other revenues are recognized when the service is provided.

(i) Interest Expense

Interest costs incurred during the construction period of significant capital projects are capitalized. Interest capitalized by the Company totaled \$489,000 and \$636,000 during the three-month and nine-month periods ended September 30, 1996, respectively, and \$112,000 during the year ended December 31, 1995.

(j) Income Taxes

The Company adopted Statement of Financial Accounting Standards No. 109 ("SFAS No. 109"), "Accounting for Income Taxes" in January 1993. Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable earnings in the years in which those temporary differences are expected to be recovered or settled.

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(k) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and

liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(1) Reclassifications

Reclassifications have been made to the 1995 financial statements to make them comparable with the 1996 presentation.

(2) Consolidated Statements of Cash Flows Supplemental Disclosures

For purposes of the Statement of Cash Flows, the Company's cash equivalents include cash and all invested assets with original maturities of less than three months.

<TABLE>

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

<CAPTION>

Nine-month period ended September 30,	(Unaudited)	
	1996	1995
	----	----
<S>	<C>	<C>
Increase in trade receivables	\$ (3,185)	(1,729)
Increase in income tax receivables	(591)	---
Increase in other receivables	(47)	(68)
Increase in prepaid and other current assets	(857)	(1,451)
(Increase) decrease in inventory	100	(1)
Increase (decrease) in accounts payable	(1,729)	2,431
Increase (decrease) in accrued payroll and payroll related obligations	1,008	(2,192)
Increase in accrued liabilities	288	262
Decrease in accrued income taxes	(547)	(11)
Increase in accrued interest	283	13
Increase (decrease) in deferred revenue	(183)	91
	-----	-----
	\$ (5,460)	(2,655)
	=====	=====

</TABLE>

Income taxes paid totaled approximately \$3,856,000 and \$2,517,000 during the nine-month periods ended September 30, 1996 and 1995, respectively.

Interest paid totaled approximately \$1,572,000 and \$914,000 during the nine-month periods ended September 30, 1996 and 1995, respectively.

The Company recorded \$187,000 and \$565,000 during the nine-month periods ended September 30, 1996 and 1995, respectively, as paid-in capital in recognition of the income tax effect of excess stock compensation expense for tax purposes over amounts recognized for financial reporting purposes.

(3) Notes Receivable

<TABLE>

A summary of notes receivable follows:

<CAPTION>

	(Unaudited)	
	September 30, 1996	December 31, 1995
	----	----
	(Amounts in thousands)	
<S>	<C>	<C>
Note receivable from officer bearing interest at the rate paid by the Company on its senior indebtedness, secured by GCI Class A common stock, due on the 90th day after termination of employment or July 30, 1998, whichever is earlier.	\$ 500	500
Note receivable from officer bearing interest at 10%, secured by Company stock; payable in equal annual installments of \$36,513 through		

August 26, 2004.

224

224

Notes receivable from officers and others bearing interest at 7% to 10%, unsecured and secured by Company common stock, shares of other common stock and equipment; due on demand and through August 26, 2004.

345

261

Total notes receivable

1,069

985

Less current portion

(447)

(167)

Plus long-term accrued interest

118

86

\$ 740

904

=====

=====

</TABLE>

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GENERAL COMMUNICATION, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(4) Long-term Debt

<TABLE>

Long-term debt is summarized as follows:

<CAPTION>

(Unaudited)
September 30, December 31,
1996 1995

(Amounts in thousands)

<S>

<C>

<C>

Credit Agreement (a)

\$ 30,100

1,000

Undersea Fiber and Equipment
Loan Agreement (b)

7,245

8,271

Financing Obligation (c)

448

709

37,793

9,980

Less current maturities

31,929

1,689

Long-term debt, excluding
current maturities

\$ 5,864

8,291

=====

=====

</TABLE>

(a) The Company entered into a new \$62.5 million interim credit facility with its senior lender during April 1996. The interim facility replaced in its entirety the prior senior facility described in the Company's December 31, 1995 Form 10-K. The new facility allows the Company to invest up to \$60 million in capital expenditures through the first quarter of 1997. The Company expects to restructure the facility prior to its maturity on April 25, 1997. Since the entire facility matures within the twelve-month period ending September 30, 1997, the outstanding balance at September 30, 1996 is included in current maturities of long-term debt.

The interim facility will allow the Company to pursue certain of its immediate priorities while it continues to refine other strategic initiatives and related financial requirements.

The interim facility provides for interest (7.345% weighted average interest rate at September 30, 1996), among other options, at LIBOR plus one and three quarters to two and one quarter percent, depending on the Company's leverage ratio as defined in the agreement. A fee of 0.50% per annum is assessed on the unused portion of the facility.

\$3.4 million of the facility has been used to provide a letter of credit to secure payment of certain access charges associated with the Company's provision of

telecommunications services within the state of Alaska.

The interim facility contains, among others, covenants requiring maintenance of specific levels of operating cash flow to indebtedness and to interest expense. The credit agreement includes limitations on acquisitions and additional indebtedness, and prohibits payment of dividends, other than stock dividends. The Company was in compliance with all credit agreement covenants during the period commencing April (date of the new interim credit facility) through September 30, 1996.

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Security for the credit agreement includes a pledge of the stock of GCC and Communication Services, and a first lien on substantially all of GCC's assets. GCI and its subsidiaries, Communication Services and Leasing Company, are liable as guarantors.

In June, 1993, the Company entered into a two-year interest rate swap agreement with a bank whereby the rate on \$18,200,000 of debt (reduced by \$422,500 per quarter beginning July 1, 1993) was fixed at 4.45 percent plus applicable margins. The interest effect of the difference between the fixed rate and the three-month LIBOR rate was either added to or served to reduce interest expense depending on the relative interest rates. The agreement expired June 30, 1995.

(b) On December 31, 1992, Leasing Company entered into a \$12,000,000 loan agreement, of which approximately \$9,000,000 of the proceeds were used to acquire capacity on the undersea fiber optic cable linking Seward, Alaska and Pacific City, Oregon. Concurrently, Leasing Company leased the capacity under a ten year all events, take or pay, contract to MCI, who subleased the capacity back to the Company. The lease and sublease agreements provide for equivalent terms of 10 years and identical monthly payments of \$200,000. The proceeds of the lease agreement with MCI were pledged as primary security for the financing. The loan agreement provides for monthly payments of \$170,000 including principal and interest through the earlier of January 1, 2003, or until repaid. The loan agreement provides for interest at the prime rate plus one-quarter percent. Additional collateral includes substantially all of the assets of Leasing Company including the fiber capacity and a security interest in all of its outstanding stock. MCI has a second position security interest in the assets of Leasing Company.

(c) As consideration for MCI's role in enabling Leasing Company to finance and acquire the undersea fiber optic cable capacity described at note 4(b) above, Leasing Company agreed to pay MCI \$2,040,000 in sixty monthly payments of \$34,000. For financial statement reporting purposes, the obligation has been recorded at its remaining present value, using a discount rate of 10% per annum. The agreement is secured by a second position security interest in the assets of Leasing Company.

As of September 30, 1996 maturities of long-term debt were as follows (in thousands):

Year ending September 30, ----- (unaudited)	
1997	\$ 31,929
1998	1,712
1999	1,755
2000	1,910
2001	487
2002 and thereafter	---

	\$ 37,793
	=====

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GENERAL COMMUNICATION, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(5) Income Taxes

<TABLE>

Total income tax expense (benefit) for the nine-month periods ended September 30, 1996 and 1995 were allocated as follows (amounts in thousands):

<CAPTION>

	1996	1995
	----	----
	(Unaudited)	
<S>	<C>	<C>
Earnings from continuing operations	\$4,610	3,955
Stockholders' equity, for stock option compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	(187)	(565)
	-----	-----
	\$4,423	3,390
	=====	=====

</TABLE>

<TABLE>

Income tax expense for the nine-month periods ended September 30, 1996 and 1995 consists of the following (amounts in thousands):

<CAPTION>

	1996	1995
	----	----
	(Unaudited)	
<S>	<C>	<C>
Current tax expense:		
Federal taxes	\$1,960	1,775
State taxes	758	731
	-----	-----
	2,718	2,506
	-----	-----
Deferred tax expense:		
Federal taxes	1,591	1,298
State taxes	301	151
	-----	-----
	1,892	1,449
	-----	-----
	\$4,610	3,955
	=====	=====

</TABLE>

<TABLE>

Total income tax expense differed from the "expected" income tax expense determined by applying the statutory federal income tax rate of 35% for the nine-month periods ended September 30, 1996 and 1995 as follows (amounts in thousands):

<CAPTION>

	1996	1995
	----	----
	(Unaudited)	
<S>	<C>	<C>
"Expected" statutory tax expense	\$3,863	3,378
State income taxes, net of federal benefit	688	582
Income tax effect of goodwill amortization, nondeductible expenditures and other items, net	59	(5)
	-----	-----
	\$4,610	3,955
	=====	=====

</TABLE>

<TABLE>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at September 30, 1996 and December 31, 1995 are presented below (amounts in thousands).

<CAPTION>

31,

	September 30, December	
	1996	1995
	----	----
	(Unaudited)	
	<C>	<C>
<S>		
Net current deferred tax assets:		
Accounts receivable, principally due to allowance for doubtful accounts	\$ 120	119
Compensated absences, accrued for financial reporting purposes	434	400
Workers compensation and self insurance health reserves, principally due to accrual for financial reporting purposes	230	183
Other	184	133
	-----	-----
Total gross current deferred tax assets	968	835
Less valuation allowance	(90)	(89)
	-----	-----
Net current deferred tax assets	\$ 878	746
	=====	=====
Net long-term deferred tax assets:		
Deferred compensation expense for financial reporting purposes in excess of amounts recognized for tax purposes	\$ 731	587
Sweepstakes expense for financial reporting purposes in excess of amounts recognized for tax purposes	244	215
Employee stock option compensation expense for financial reporting purposes in excess of amounts recognized for tax purposes	199	206
Capital loss carryforwards	23	23
Other	248	238
	-----	-----
Total gross long-term deferred tax assets	1,445	1,269
Less valuation allowance	(135)	(136)
	-----	-----
Net long-term deferred tax assets	1,310	1,133
	-----	-----
Net long-term deferred tax liabilities:		
Plant and equipment, principally due to differences in depreciation	9,301	7,997
Software development expense for tax purposes in excess of amounts recognized for financial reporting purposes	541	---
Other	309	140
	-----	-----
Total gross long-term deferred tax liabilities	10,151	8,137
	-----	-----
Net combined long-term deferred tax liabilities	\$ 8,841	7,004
	=====	=====

</TABLE>

The valuation allowance for deferred tax assets was \$225,000 as of September 30, 1996 and December 31, 1995.

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

The Company's U.S. income tax return for 1993 was selected for examination by the Internal Revenue Service during 1995. The examination commenced during the fourth quarter of 1995 and was completed during the second quarter of 1996. The Company received a no change letter upon completion of the examination.

(6) Stockholders' Equity

Common Stock

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

MCI owns a total of 6,251,509 shares of GCI's Class A and 1,275,791 shares of GCI's Class B common stock which on a fully diluted basis represents approximately 31 percent of the issued and outstanding shares of each of the classes.

Stock Option Plan

In December 1986, GCI adopted a Stock Option Plan (the "Option Plan") in order to provide a special incentive to officers, non-employee directors, and employees by offering them an opportunity to acquire an equity interest in GCI. The Option Plan provides for the grant of options for a maximum of 3,200,000 shares of GCI Class A common stock, subject to adjustment upon the occurrence of stock dividends, stock splits, mergers, consolidations or certain other changes in corporate structure or capitalization. If an option expires or terminates, the shares subject to the option will be available for further grants of options under the Option Plan. The Option Plan is administered by GCI's Board of Directors or a committee of disinterested persons.

Employees of GCI (including officers and directors), employees of affiliated companies and non-employee directors of GCI are eligible to participate in the Option Plan. The Option Plan provides that all options granted under the Option Plan must expire not later than ten years after the date of grant. The exercise price may be less than, equal to, or greater than the fair market value of the shares on the date of grant. If at the time an option is granted the exercise price is less than the market value of the underlying common stock, the "in the money" amount at the time of grant is expensed ratably over the vesting period of the option. Options granted pursuant to the Option Plan are only exercisable if at the time of exercise the option holder is an employee or non-employee director of GCI.

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GENERAL COMMUNICATION, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

<TABLE>

Information for the periods ended September 30, 1996 and 1995 with respect to the Plan follows (unaudited):

<CAPTION>

	Shares -----	Option Price -----
<S>	<C>	<C>
Outstanding at December 31, 1994	1,729,699	\$0.75-\$4.00
Granted	400,000	\$4.00
Exercised	(20,000)	\$2.25
Forfeited	(11,500)	\$4.00

Outstanding at September 30, 1995	2,098,199 =====	\$0.75-\$4.00
Outstanding at December 31, 1995	2,288,199	\$0.75-\$4.00
Granted	61,000	\$3.75-\$4.50
Exercised	(82,291)	\$0.75-\$4.00
Forfeited	(78,291)	\$0.75-\$4.50

Outstanding at September 30, 1996	2,188,617 =====	\$0.75-\$4.50
Available for grant at September 30, 1996	366,844 =====	
Exercisable at September 30, 1996	1,006,397 =====	

</TABLE>

The options expire at various dates through February 2006.

Stock Options Not Pursuant to a Plan

In June 1989, officer John Lowber was granted options to acquire 100,000 Class A common shares at \$.75 per share. The options vested in equal annual increments over a five-year period and expire February, 1999.

The Company entered into an incentive agreement in June 1989 with Mr. Behnke, an officer of the Company. The incentive agreement provides for the acquisition of 85,190 remaining shares of Class A common stock of the Company for \$.001 per share exercisable through June 16, 1997. The shares under the incentive agreement vested in equal annual increments over a three-year period.

Class A Common Shares Held in Treasury

The Company acquired 105,111 shares of its Class A common stock in 1989 for approximately \$328,000 to fund a deferred bonus agreement with Mr. Duncan, an officer of the Company. The agreement provides that the balance is payable after the later of a) termination of employment or b) six months after the effective date of the agreement. In September 1995 and July 1996, the Company acquired a total of 93,970 additional shares of Class A common stock for approximately \$672,000 to fund additional deferred compensation agreements for two of its officers, including Mr. Duncan.

Employee Stock Purchase Plan

In December 1986, GCI adopted an Employee Stock Purchase Plan (the "Plan") qualified under Section 401 of the Internal Revenue Code of 1986 (the "Code"). The Plan provides for acquisition of the Company's Class A and Class B common stock at market value. The Plan permits each employee of GCI and affiliated companies who has completed one year of service to elect to participate in the Plan. Eligible employees may elect to reduce their compensation in any even dollar amount up to 10 percent of such compensation up to a maximum of \$9,500 in 1996; they may contribute up to 10 percent of their compensation with after-tax dollars, or they may elect a combination of salary reductions and after-tax contributions.

GCI may match employee salary reductions and after tax contributions in any amount, elected by GCI each year, but not more than 10 percent of any one employee's compensation will be matched in any year. The combination of salary reductions, after tax contributions and GCI matching contributions cannot exceed 25 percent of any employee's compensation (determined after salary reduction) for any year. GCI's contributions vest over six years. Prior to July 1, 1995 employee and GCI contributions were invested in GCI common stock and employee contributions received up to 100% matching, as determined by the Company each year, in GCI common stock. Beginning July 1, 1995 employee contributions may be invested in GCI, MCI, or Tele-Communications, Inc. common stock or in various mutual funds. Such employee contributions invested in GCI common stock receive up to 100% matching, as determined by the Company each year, in GCI common stock. Employee contributions invested in other than GCI common stock receive up to 50% matching, as determined by the Company each year, in GCI common stock. The Company's matching contributions allocated to participant accounts totaled approximately \$257,000 and \$203,000 for the quarters ended September 30, 1996 and 1995, respectively, and \$738,000 and \$712,000 for the nine-month periods ended September 30, 1996 and 1995, respectively. The Plan may, at its discretion, purchase shares of common stock from the Company at market value or may purchase GCI common stock on the open market.

(7)

Sales to Major Customers

The Company provides message telephone service to MCI and U.S. Sprint ("Sprint"), major customers. Pursuant to the terms of a contract with MCI, the Company earned revenues of approximately \$8.0 million and \$6.7 million for the quarters ended September 30, 1996 and 1995, respectively, and approximately \$21.9 million and \$17.8 million for the nine-month periods ended September 30, 1996 and 1995, respectively. The Company earned revenues pursuant to a contract with

Sprint totaling approximately \$4.9 million and \$4.0 million for the quarters ended September 30, 1996 and 1995, respectively, and \$13.4 million and \$11.0 million for the nine-month periods ended September 30, 1996 and 1995, respectively.

(8) Leases

The Company leases business offices, has entered into site lease agreements and uses certain equipment and satellite transponder capacity pursuant to operating lease arrangements. Rental costs under such arrangements amounted to approximately \$1,632,000 and \$1,102,000 for the quarters ended September 30, 1996 and 1995, respectively, and \$4,404,000 and \$3,268,000 for the nine-month periods ended September 30, 1996 and 1995, respectively.

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Company entered into a long-term capital lease agreement in 1991 with the wife of the Company's president for property occupied by the Company. The lease term is 15 years with monthly payments increasing in \$800 increments at each two year anniversary of the lease. Monthly lease costs totaled \$16,000 effective October 1995 and will increase to \$16,800 effective October 1997. If the owner sells the premises prior to the end of the tenth year of the lease, the owner will rebate to the Company one-half of the net sales price received in excess of \$900,000. If the property is not sold prior to the tenth year of the lease, the owner will pay the Company the greater of one-half of the appreciated value of the property over \$900,000, or \$500,000. The leased asset was capitalized in 1991 at the owner's cost of \$900,000 and the related obligation was recorded in the accompanying financial statements.

The leases generally provide that the Company pay the taxes, insurance and maintenance expenses related to the leased assets.

It is expected that in the normal course of business, leases that expire will be renewed or replaced by leases on other properties.

(9) Disclosure about Fair Value of Financial Instruments

Statement of Financial Standards No. 107, "Disclosures about Fair Value of Financial Instruments" ("SFAS No. 107") requires disclosure of the fair value of financial instruments for which it is practicable to estimate that value. SFAS No. 107 specifically excludes certain items from its disclosure requirements. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The carrying amounts at September 30, 1996 and December 31, 1995 for the Company's financial assets and liabilities approximate their fair values.

(10) Commitments and Contingencies

The Company entered into a purchase and lease-purchase option agreement in August 1995 for the acquisition of satellite transponders to meet its long-term satellite capacity requirements. The amount of the down payment required in 1996 and the balance payable upon expected delivery of the transponders in 1998 are dependent upon a number of factors. The Company does not expect the down payment to exceed \$9.1 million (of which \$7.8 million had been paid as of September 30, 1996) and the remaining balance payable at delivery to exceed \$37 million.

In the normal course of the Company's operations, it and GCC are involved in various legal and regulatory matters before the FCC and the APUC. While the Company does not anticipate that the ultimate disposition of such matters will result in abrupt changes in the competitive structure of the Alaska market or of the business of the Company, no assurances can be given that such changes will not occur and that such changes would not be materially adverse to GCI.

(11) Subsequent Event

Effective October 31, 1996, following shareholder and regulatory approvals, the Company completed the acquisition of seven Alaska cable companies that offer cable television service to more than 105,000 basic subscribers with facilities passing 74 percent of

households throughout the state of Alaska. Under the terms of the transactions, to be accounted for using

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GENERAL COMMUNICATION, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

the purchase method, the final purchase price was \$285.7 million, which was the aggregate value for all the cable systems and included certain transaction and financing costs. The purchase price for the net assets of Alaskan Cable Network was \$70 million (\$51 million in cash and 2,923,077 shares of Class A stock); the price for the net assets of Alaska Cablevision, Inc. was \$31 million (\$21 million in cash and \$10 million in notes convertible into approximately 1,538,000 shares of Class A stock); and, for Prime Cable of Alaska, LP ("Prime"), 11,800,000 shares of Class A stock and assumption of Prime's long-term debt. Financing for the transactions resulted from borrowings under a new \$205 million bank credit facility and from additional capital provided from the sale of 2 million shares of GCI's Class A common stock to MCI Telecommunications Corporation for \$6.50 per share.

Prime operates the state's largest cable television system including stations in Anchorage, Bethel, Kenai and Soldotna, Alaska. Alaska Cablevision, Inc. owns and operates cable stations in Petersburg, Wrangell, Cordova, Valdez, Kodiak, Nome and Kotzebue, Alaska. McCaw/Rock Seward Cable System operates stations in Seward, Alaska. McCaw/Rock Homer Cable System operates stations in Homer, Alaska. Alaskan Cable companies operate stations in Fairbanks, Juneau, Ketchikan and Sitka, Alaska.

The final closing required approval of the Alaska Public Utilities Commission (APUC), which was granted on September 23, 1996. The APUC approval included several conditions placed on the transfer, such as continuing the existing conditions requiring provision of public access channels and requiring the cable operations to file annual income and operating statements.

Pro forma revenue, net income and net income per share for the nine-month periods ended September 30, 1996 and 1995 will be provided through a timely filed amendment to Form 10-Q.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of the Company's consolidated results of operations and financial condition. The discussion should be read in conjunction with the Consolidated Financial Statements and notes thereto.

Liquidity and Capital Resources

The Company's liquidity (ability to generate adequate amounts of cash to meet the Company's need for cash) was affected by a net increase in the Company's cash and cash equivalents of \$1.2 million from December 31, 1995 to September 30, 1996. Sources of cash in 1996 included the Company's operating activities which generated positive cash flow of \$8.7 million net of changes in the components of working capital, long-term borrowings of \$29.1 million, and payments on notes receivable of \$249,000. Uses of cash during 1996 included investment of \$24.8 million in distribution and support equipment and systems, payment of a \$7.8 million transponder purchase deposit, repayment of \$1.5 million of long-term borrowings and capital lease obligations, purchase \$621,000 of treasury stock to fund a deferred compensation agreement, payment of loan fees totaling \$439,000, expenditures associated with the cable company acquisitions totaling approximately \$589,000, and investment in other assets.

Net receivables increased \$3.8 million from December 31, 1995 to September 30, 1996 resulting from: 1) increased MTS sales in 1996 as compared to 1995, 2) increased amounts due from other common carriers attributed to growth in their traffic carried by the Company, 3) increased private line sales activity in 1996 as compared to 1995,

and 4) recording refundable income taxes at September 30, 1996.

Working capital (current assets less current liabilities) totaled (\$17.9) million (deficit) and \$5.1 million at September 30, 1996 and December 31, 1995, respectively. As disclosed in Note 4 to the accompanying Consolidated Financial Statements, the Company expects to restructure its senior credit facility prior to its maturity on April 25, 1997. Since the entire facility matures within the twelve-month period ending June 30, 1997, the outstanding balance at September 30, 1996 is included in current maturities of long-term debt. Except for the classification of the Company's senior indebtedness as current, working capital at September 30, 1996 totaled \$12.2 million, a \$7.1 million increase from December 31, 1995. Working capital generated by operations and proceeds from borrowings exceeded expenditures for property and equipment, payment of a transponder deposit, and repayment of borrowings and capital lease obligations resulting in the \$7.1 million increase at September 30, 1996 as compared to December 31, 1995.

Cash flow from operating activities, as depicted in the Consolidated Statements of Cash Flows, decreased \$467,000 in the first nine months of 1996 as compared to the same period of 1995. Cash flow increases resulting from revenue growth as further described below were offset by an increase in trade receivables and payment of current obligations, resulting in the net decrease in 1996.

The Company's expenditures for property and equipment, including construction in progress, totaled \$24.8 million and \$4.8 million during the first three quarters of 1996 and 1995, respectively. Management's capital expenditures plan for 1996 includes approximately \$30 to \$50 million in capital necessary to pursue strategic initiatives, to maintain the network and to enhance transmission capacity to meet projected traffic demands.

The two wideband transponders the Company owned reached the end of their expected useful life in August, 1994, at which time the Company leased replacement capacity. The

existing leased capacity is expected to meet the Company's requirements until such time that capacity is available pursuant to the terms of a new long-term agreement described below.

The Company entered into a purchase and lease-purchase option agreement in August 1995 for the acquisition of satellite transponders to meet its long-term satellite capacity requirements. The amount of the down payment required in 1996 and the balance payable upon expected delivery of the transponders in 1998 are dependent upon a number of factors including the number of transponders required and the timing of their delivery and acquisition. The Company does not expect the down payment to exceed \$9.1 million (of which \$7.8 million was paid at September 30, 1996) and the remaining balance payable on delivery to exceed \$37 million. The Company amended its existing senior credit facility to provide for the required down payment in 1996 and expects to further amend or refinance its credit agreement to fund its remaining commitment.

The Company continues to evaluate the most effective means to integrate its telecommunications network with that of MCI. Such integration will require capital expenditures by the Company in an amount yet to be determined. Any investment in such capital expenditures is expected to be recovered by increased revenues from expanded service offerings and reductions in costs resulting from integration of the networks.

The FCC concluded an auction of spectrum to be used for the provision of PCS in March, 1995. The Company was named by the FCC as the high bidder for one of the two 30 megahertz blocks of spectrum, with Alaska statewide coverage. Acquisition of the license for a cost of \$1.65 million will allow GCI to introduce new PCS services in Alaska. The Company began developing plans for PCS deployment in 1995 with limited technology service trials planned for the fourth quarter of 1996 and early 1997 with service offerings expected as early as late 1997 or 1998. Expenditures for PCS deployment could total \$50 to \$100 million over the next 10 year period. The estimated cost for PCS deployment is expected to be funded through income from operations and additional debt and perhaps, equity financing. The Company's

ability to deploy PCS services will be dependent on its available resources.

The Company obtained necessary APUC and FCC approvals waiving current prohibitions against construction of competitive facilities in rural Alaska, allowing for deployment of DAMA technology in 56 sites in rural Alaska on a demonstration basis. Construction and deployment will be completed in the fourth quarter of 1996, with services expected to be provided at that time. Construction and deployment costs are expected to total \$18 to \$20 million, and are being funded through a combination of cash generated from operations and bank financing. The Company's expenditures for DAMA construction and deployment totaled approximately \$14.8 million through September 30, 1996. Existing satellite technology relies on fixed channel assignments to a central hub. The Company's new DAMA communication technology assigns satellite capacity on an as needed basis. The digital DAMA system allows calls to be made between remote villages using only one satellite hop thereby reducing satellite delay and capacity requirements while improving quality. A four-module demonstration system was constructed in 1994 and was integrated into the Company's telecommunication network in 1995.

Effective October 31, 1996, following shareholder and regulatory approvals, the Company completed the acquisition of seven Alaska cable companies that offer cable television service to more than 105,000 basic subscribers with facilities passing 74 percent of households throughout the state of Alaska. Under the terms of the transactions, to be accounted for using the purchase method, the final purchase price was \$285.7 million, which was the aggregate value for all the cable systems and included certain transaction and financing costs. The

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

purchase price for the net assets of Alaskan Cable Network was \$70 million (\$51 million in cash and 2,923,077 shares of Class A stock); the price for the net assets of Alaska Cablevision, Inc. was \$31 million (\$21 million in cash and \$10 million in notes convertible into approximately 1,538,000 shares of Class A stock); and, for Prime Cable of Alaska, LP ("Prime"), 11,800,000 shares of Class A stock and assumption of Prime's long-term debt. Financing for the transactions resulted from borrowings under a new \$205 million bank credit facility and from additional capital provided from the sale of 2 million shares of GCI's Class A common stock to MCI Telecommunications Corporation for \$6.50 per share.

Prime operates the state's largest cable television system including stations in Anchorage, Bethel, Kenai and Soldotna, Alaska. Alaska Cablevision, Inc. owns and operates cable stations in Petersburg, Wrangell, Cordova, Valdez, Kodiak, Nome and Kotzebue, Alaska. McCaw/Rock Seward Cable System operates stations in Seward, Alaska. McCaw/Rock Homer Cable System operates stations in Homer, Alaska. Alaskan Cable companies operate stations in Fairbanks, Juneau, Ketchikan and Sitka, Alaska.

The final closing required approval of the Alaska Public Utilities Commission (APUC), which was granted on September 23, 1996. The APUC approval included several conditions placed on the transfer, such as continuing the existing conditions requiring provision of public access channels and requiring the cable operations to file annual income and operating statements.

These transactions are expected to allow the Company to integrate cable services to bring more information not only to more customers, but in a manner that is quicker, more efficient and more cost effective than ever before. The purchase will facilitate consolidation of the cable operations and will provide a platform for developing new customer products and services over the next several years.

The Company entered into a new \$62.5 million interim credit facility with its senior lender during April 1996. The new facility will allow the Company to invest up to \$60 million in capital expenditures during the one-year term of the facility. The Company expects to restructure the facility prior to its maturity on April 25, 1997. The interim facility will allow the Company to pursue certain of its immediate priorities while it continues to refine other strategic initiatives and related financial requirements. Additional capacity

of approximately \$25 million on the new \$205 million bank credit facility, depending on cable company performance, will be available to upgrade and expand certain cable facilities and equipment.

The Company's ability to continue to invest in discretionary capital and other projects will depend upon its future cash flows and access to necessary debt and/or equity financing.

Results of Operations

The Company's message data and transmission services industry segment includes the provision of interstate and intrastate long distance telephone service to all communities within the state of Alaska through use of its facilities and interconnect agreements with other carriers. The Company's average rate per minute for message transmission services during the first 9 months of 1996 was 18.8(cents) as compared to 19.2(cents) for the same period in 1995. The decrease in the average rate per minute results from the Company's promotion of and customers' enrollment in new calling plans offering discounted rates and length of service rebates.

CONDITION AND RESULTS OF OPERATIONS

Total revenues for the first nine months of 1996 were \$115.8 million, a 22.0 percent increase over total revenues for the same period of 1995 of \$94.9 million. Total revenues for the third quarter of 1996 were \$38.7 million, a 15.9 percent increase over total revenues for the same period of 1995 of \$33.4 million.

Revenue growth is attributed to five fundamental factors, as follows:

- (1) Growth in interstate telecommunication services which resulted in billable minutes of traffic carried totaling 147 million and 121 million minutes in the third quarter of 1996 and 1995, respectively, or 83 and 84 percent of total 1996 and 1995 minutes, respectively, and billable minutes of traffic carried totaling 422 million and 338 million minutes in the first nine months of 1996 and 1995, respectively, or 82 and 84 percent of total 1996 and 1995 minutes, respectively.
- (2) Provision of intrastate telecommunication services which resulted in billable minutes of traffic carried totaling 31 million and 23 million minutes in the third quarter of 1996 and 1995, respectively, or 17 and 16 percent of total 1996 and total 1995 minutes, respectively, and billable minutes of traffic carried totaling 91 million and 67 million minutes in the first nine months of 1996 and 1995, respectively, or 18 and 16 percent of total 1996 and 1995 minutes, respectively.

Interstate and intrastate minutes and revenue growth are primarily the result of the Company's customer acquisition program which commenced during the third quarter of 1995.

- (3) Increases in revenues derived from other common carriers ("OCC") including MCI and Sprint. OCC traffic accounted for \$13 million or 33% and \$11 million or 32% of total revenues in the third quarter of 1996 and 1995, respectively. OCC traffic accounted for \$36 million or 31% and \$29 million or 30% of total revenues in the first nine months of 1996 and 1995, respectively. Both MCI and Sprint are major customers of the Company. Loss of one or both of these customers would have a significant detrimental effect on revenues and on contribution. Except as described in (5) below, there are no other individual customers, the loss of which would have a material impact on the Company's revenues or gross profit.
- (4) Increased revenues associated with private line and private network transmission services, which increased 15 percent to \$3.3 million in the third quarter of 1996 as compared to \$2.9 million in the same period of 1995, and increased 27 percent to \$10.6 million in the first nine months of 1996 as compared to \$8.4 million in the same period of 1995.
- (5) Increased revenues associated with network services revenues, which increased 46 percent to \$1.1 million in the third quarter of 1996 as compared to \$750,000 in the same period of 1995, and increased 47 percent to \$3.8 million in the first nine months of 1996 as compared to \$2.6 million in the same

period of 1995. Revenue growth is primarily attributed to the commencement of telecommunication services offered to National Bank of Alaska during the second quarter of 1996 pursuant to a six year contract. The following services were provided during the transition period that was completed in the third quarter of 1996: 1) branch deployment, 2) upgrade of existing local area network environments, and 3) wide area network deployment. The Company will continue to provide operation and management services after the transition period throughout the remainder of the contract term. Transition services are billable based on the scope-of-work. Recurring operation and management services are billable as incurred and are subject to targeted cost ceilings. National Bank of

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

Alaska is a national bank and the largest financial institution in the State of Alaska. It provides banking and financial services and operates over 50 branch offices in both urban and bush areas throughout the state, the largest network of bank branch offices in the state. The Company considers the agreement with National Bank of Alaska significant in that it offers the Company the opportunity to provide telecommunication services to a highly visible customer throughout the state over an extended period of time.

Transmission access and distribution costs, which represent cost of sales for transmission services, amounted to approximately 57 percent and 55 percent of transmission revenues during the third quarter of 1996 and 1995, respectively, and amounted to approximately 57 percent of transmission revenues during each of the first nine month periods of 1996 and 1995. The increase in distribution costs as a percentage of transmission revenues during 1996 as compared to 1995 results primarily from reduced average rate per minute billed to customers in 1996 as compared to 1995 without an offsetting reduction in the rate per minute billed to the Company for access and termination services, offset in part by refunds in the first two quarters of 1996 totaling approximately \$960,000 for a local exchange carrier and National Exchange Carrier Association excess earnings in 1993 and 1994. Changes in distribution costs as a percentage of revenues will also occur as the Company's traffic mix changes. The Company is unable to predict if or when access charge rates will change in the future and the impact of such changes on the Company's distribution costs.

Contribution increased 8 percent during the third quarter of 1996 as compared to the same period of 1995 and increased 18 percent during the first nine months of 1996 as compared to the same period of 1995. Increases in both periods resulted from increased revenues derived from private line and network services, increased OCC revenues billed at a consistent average rate per minute, and reductions in distribution costs as previously described. Such increases were offset, in part, by a reduced average rate per minute earned on interstate and intrastate telecommunication services.

Total operating costs and expenses as a percentage of revenues decreased from 33 percent in the third quarter of 1995 to 32 percent in the same period of 1996 and increased 12 percent from \$11.1 million in the third quarter of 1995 to \$12.4 million in the same period of 1996.

Total operating costs and expenses as a percentage of revenues decreased from 33 percent in the nine-month period ending September 30, 1995 to 32 percent in the same period of 1996 and increased 19 percent from \$31.5 million in the first nine months of 1995 to \$37.5 million in the same period of 1996.

Increases in aggregate operating costs and expenses for both periods are primarily due to following four factors:

- (1) Increased personnel and other costs totaling approximately \$1.5 million for the nine-month period ending September 30, 1996 in sales and customer service, credit, engineering, operations and management information services. Such costs are associated with the development and introduction of new products and services including local services, cable television services, rural message and data telephone services, PCS services, and internet services.

- (2) Increased sales and customer service volumes.
- (3) Additional bad debt expense directly associated with increased revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

- (4) Increased sales, advertising and telemarketing costs due to the introduction of the Company's Great Rate, Great Dividend and other proprietary rate plans.

In general, the Company has dedicated additional resources in certain areas and product lines to pursue longer term opportunities. It must balance the desire to pursue such opportunities with the need to continue to improve current performance.

Continuing legal and regulatory costs are, in large part, associated with regulatory matters involving the FCC, the APUC, and the Alaska Legislature.

EBITDA (earnings before interest, taxes, depreciation and amortization), increased approximately 2% to \$5.8 million in the third quarter of 1996 from \$5.7 million in the same period of 1995, and increased approximately 16% to \$17.6 million in the first nine months of 1996 from \$15.1 million in the same period of 1995. EBITDA, a measure of the Company's ability to generate cash flows, should be considered in addition to, but not as a substitute for, or superior to, other measures of financial performance reported in accordance with generally accepted accounting principles. EBITDA, also known as operating cash flow, is often used by analysts when evaluating companies in the telecommunications industry.

Interest expense increased 24 percent to \$415,000 during the third quarter of 1996 as compared to \$336,000 during the same period of 1995, and increased 31 percent to \$1,219,000 during the first nine months of 1996 as compared to \$927,000 during the same period of 1995. The increases in interest expense in both periods result primarily from increases in the Company's average outstanding indebtedness, offset in part by increases in the amount of interest capitalized during 1996.

Income tax expense totaled approximately \$1.6 million in each of the third quarter periods of 1996 and 1995, respectively, and totaled \$4.6 million and \$4.0 million in the first nine months of 1996 and the same period of 1995, respectively, resulting from the application of statutory income tax rates to net earnings before income taxes.

The Company has capital loss carryovers totaling approximately \$56,000 which expire in 1997. Tax benefits associated with recorded deferred tax assets, net of valuation allowances, are considered to be more likely than not realizable through taxable income earned in carryback years, future reversals of existing taxable temporary differences, and future taxable income exclusive of reversing temporary differences and carryforwards.

The Company offers a broad spectrum of telecommunication services to residential, commercial and governmental customers primarily throughout Alaska. As a result of this geographic concentration, the Company's growth and operations depend upon economic conditions in Alaska. The economy of Alaska is dependent upon the natural resource industries, and in particular oil production, as well as tourism, government, and United States military spending. Any deterioration in these markets could have an adverse impact on the Company. Oil revenues over the past several years have contributed in excess of 75% of the revenues from all segments of the Alaska economy. The volume of oil transported by the TransAlaska Oil Pipeline System over the past 20 years has been as high as 2.1 million barrels per day in 1988. Over the past several years, it has begun to decline and is expected to average approximately 1.4 million barrels per day in 1996. The volume of oil transported by that pipeline is expected to decrease to 1.0 million barrels per day within a few years, based upon present developed oil fields using the pipeline for transport. The trend of continued decline is inevitable, short of new recovery techniques and discovery and development of other oil fields with access to the present pipeline. The probability of discovery of such oil reserves sufficient to maintain oil production at present-day levels will

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CONDITION AND RESULTS OF OPERATIONS

be challenging at best. No assurance can be given that such production levels can be maintained. With the decline of oil production, all segments of the Alaska economy will be affected. The Company has, since its entry into the telecommunication marketplace aggressively marketed its services to seek a larger share of the available market. However, with a small population of approximately 600,000 people, one-half of whom are located in the Anchorage area and the rest of whom are spread out over the vast reaches of Alaska, the customer base in Alaska is limited. No assurance can be given that the driving forces in the Alaska economy, and in particular, oil production, will continue at levels to provide an environment for expanded economic activity, let alone a stable economy and demand for telecommunication services. The loss of jobs and associated revenues attributed to potential oil and gas industry workforce reductions is not expected to have an immediate material effect on the Company's operations.

The Telecommunications Act of 1996 ("Act") was signed into law Feb. 8, 1996. Under the provisions of the Act, Bell Operating Companies can immediately begin manufacturing, research and development; GTE Corp. can begin providing interexchange services through its telephone companies nationwide; laws in 27 states that foreclose competition are knocked down; co-carrier status for competitive local exchange carriers is ratified; and the concept of "physical collocation" of competitors' facilities in Local Exchange Carriers central offices, which an appeals court rejected, is resurrected.

As allowed by the Act, the Company and AT&T Alascom filed with the APUC in 1996 for authorization to provide local service in the Anchorage area and requested negotiations with the Anchorage Telephone Utility ("ATU") for interconnection and the resale of local service. The Company, in July 1996, has further requested arbitration by the APUC of the interconnection and resale issues with ATU. Additionally, ATU has indicated that it intends to enter the long distance market by the end of 1996. ATU applied to the APUC during June, 1996 and subsequently received approval to provide intrastate service through the purchase of long-distance service at wholesale rates from the Company and AT&T Alascom and then resell the service back to Anchorage customers at retail rates.

The Act requires the Federal Communications Commission to open no fewer than 50 rulemaking proceedings. The legislation calls for the establishment of a new federal-state joint board on universal service within 30 days of enactment. That board will have to develop proposals to revamp the universal service subsidy system that has evolved over the years which could be among the most far-reaching provisions of the Act.

The Company is unable to determine the impact on its operations of the Act, the rulemaking proceedings, the arbitration proceedings, the actions of the federal-state joint board or ATU's possible entry into the long distance market.

In June 1996, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS No. 125"). SFAS No. 125 establishes financial accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. SFAS No. 125 requires the recognition of financial assets and servicing assets, if any, that are controlled by the Company, the derecognition of financial assets, if any, when control is surrendered, and the derecognition of liabilities, if any, when control has been surrendered in the transfer of financial assets. The Company anticipates that the adoption of SFAS No. 125 in 1997 will not have a material effect on its consolidated financial statements.

The Company generally has experienced increased costs in recent years due to the effect of inflation on the cost of labor, material and supplies, and plant and equipment. A portion of the increased labor and material and supplies costs directly affects income through increased maintenance and operating costs. The cumulative impact of

inflation over a number of years has resulted in higher depreciation expense and increased costs for current replacement of productive facilities. However, operating efficiencies have partially offset this impact, as have price increases, although the latter have generally not been adequate to cover increased costs due to inflation. Competition and other market factors limit the Company's ability to price services and products based upon inflation's effect on costs.

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II. OTHER INFORMATION

(1) Legal Proceedings

Information regarding pending legal proceedings to which the Company is a party is included in Note 10 of Notes to Consolidated Financial Statements and is incorporated herein by reference.

(6) Exhibits and Reports on Form 8-K

- (a) Exhibit 27- Financial Data Schedule
- (b) Reports on Form 8-K filed during the quarter ended September 30, 1996 - None

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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.

November 13, 1996
(Date)

By: /s/ Ronald A. Duncan
Ronald A. Duncan, President and
Director
(Principal Executive Officer)

November 13, 1996
(Date)

By: /s/ John M. Lowber
John M. Lowber, Senior Vice
President and Chief Financial
Officer
(Principal Financial Officer)

November 13, 1996
(Date)

By: /s/ Alfred J. Walker
Alfred J. Walker, Vice President and
Chief Accounting Officer
(Principal Accounting
Officer)

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